



“Avalon Technologies Limited
Q3 FY '26 Earnings Conference Call”
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MODERATOR: **MR. JIGNESH THAKUR – JM FINANCIALS**

Moderator: Ladies and gentlemen, good day, and welcome to the Avalon Technologies Limited Q3 FY '26 Earnings Conference Call. As a reminder, all participant lines will be in a 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 Mr. Jignesh Thakur from JM Financials. Thank you, and over to you, sir.

Jignesh Thakur: Good afternoon, everyone, and a warm welcome to the Q3 FY '26 earnings call of Avalon Technologies. To take us through the results today, we have with us from the management, Mr. Kunhamed Bicha, Chairman and Managing Director; Mr. Bhaskar Srinivasan, President; Mr. Suresh V.R., Chief Financial Officer; Mr. Shriram Vijayaraghavan, Chief Operating Officer; 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 remark on the financial performance, post which we will open the floor for the Q&A. As we move forward, it is important to bear in mind that any forward-looking statements made during this call are subject to potential risks and uncertainties, both known and unknown. Now without any further delay, I will hand over the floor to Mr. Bicha for his initial remarks, the CMD. Thank you, and over to you, sir.

Kunhamed Bicha: Thank you, Jignesh. Good evening, ladies and gentlemen. On behalf of Avalon Technologies, we extend a very warm welcome to our Q3 FY '26 earnings call. We thank our investors for your continued trust and support. Your confidence in Avalon has been an important contributor to our consistent progress in execution, financial performance and operational discipline.

Q3 FY '26 marks our sixth consecutive quarter of sustained growth. We delivered improved performance across key financial and operational metrics, including revenue growth, profitability, order book growth, net working capital days, asset turns, cash flow from operations, net debt to equity and return on capital employed. We have also made steady progress in new product introductions, including semiconductor manufacturing equipment and power systems.

The external environment is also supportive of our long-term growth. U.S. tariffs have reduced from 50% to 18%, benefiting our U.S. export business. In India, the government direction towards India Semiconductor Mission 2.0 with a focus on semiconductor equipment aligns well with our capabilities and recent business wins.

Our efforts to build a meaningful sales presence in Europe over the last few quarters also coincide with the India-Europe trade deal. Overall, we believe we are well positioned from both a company and market perspective.

Q3 FY '26 saw our highest ever revenue and profit after tax in the history of the company. This is supported by well-diversified growth across both verticals and geographies. With improved business visibility, a better macro environment and ongoing project ramp-ups, we are revising

our FY '26 revenue growth guidance upward to around 40% from the earlier guidance of 28% to 30%.

Moving on to the key financial highlights for 9 months FY '26. Revenue for 9 months FY '26 was at INR1,123 crores, representing a year-on-year growth of 48.7%. Our average revenue growth over the last 6 quarters has been 46%. Our focus on manufacturing complex box build systems continue to gain traction with box build contribution improving from 49% in FY '25 to 53% in 9 months FY '26.

As of December 31, 2025, our order book grew 26.5% year-on-year to INR2,016 crores with an average execution period of 14 months. In addition, long-term contracts with execution time lines ranging from 15 to 36 months is at INR1,183 crores. Order book growth remains well balanced and diversified across industry verticals and geographies. Gross margin for 9 months FY '26 was at 34.6% at the upper end of our guided range of 33% to 35%.

EBITDA for 9 months FY '26 was at INR116 crores, reflecting a growth of 59.2%. EBITDA margin improved to 11.5% in Q3 FY '26, supported by operating leverage. Profit after tax for 9 months FY '26 was at INR72 crores, an increase of 83.3% year-over-year. Profit after tax for Q3 FY '26 was INR33 crores.

India manufacturing operations, which continue to serve both domestic and global customers, accounted for 78% of our total revenue in Q3 FY '26, delivering a very healthy profitability with an EBITDA margin of 16.7% and a PAT margin of 11.9%. Revenue from our U.S. manufacturing operations contributed the remaining 22%. Net working capital continued to improve during the third quarter. On a quarter-on-quarter basis, net working capital improved by 13 days from September 2025 to December 2025.

Receivables reduced by 8 days sequentially. Inventory declined by 3 days sequentially as programs moved into execution phase. Payables also improved by 2 days sequentially. Overall, the improvement in net working capital supported a positive cash flow from operations of INR51 crores in Q3 FY '26.

We continue to follow a capex-light model. Asset turns improved from 7.5x in FY '25 to 9.5x in Q3 FY '26. Net debt remained low with a net debt-to-equity ratio of 0.04. As a result, return on capital employed improved to 18.8% from 11.3% a year ago, reflecting continued efficiency in capital utilization.

On the topic of tariffs, the long-awaited trade deal has been announced with U.S. tariffs on imports from India reduced from 50% to 18%. During this period, we were able to recover 99% of the applicable tariffs from our customers, supported by our long-standing presence in the U.S., deep market understanding and a strong customer relationships.

More importantly, this period of elevated tariffs helped us accelerate on new set of business opportunities. Alongside wins in the domestic Indian market, we accelerated new program wins in the U.S. for U.S. manufacturing, as customers look to diversify supply chains and reduce risk.

At the same time, we have made progress in expanding exports to Southeast Asia, further broadening our geographic footprint.

With the tariff reduction now in place, another growth lever comes into play. India manufacturing for U.S. customers becomes even more attractive, strengthening one of our core competencies. As a result, domestic growth, new regions of export and U.S.-focused India manufacturing are coming together, giving us confidence in a strong and well-balanced growth journey ahead.

Now moving on to key growth drivers and an update on major programs. We remain encouraged by progress across our 3 growth drivers. One, existing business. This is driven by long product life cycles, mission-critical products and steady recurring revenues. Growth remained well diversified across rail, aerospace, industrial, clean energy and communications.

In 9 months FY '26, the industrial vertical contributed 35% of our revenue and grew 67% year-on-year. Rail as part of our Mobility segment contributed 16% and grew 70% year-on-year, while Aerospace contributed 8% and grew 64% year-on-year. Clean Energy accounted for 19% of our revenue and grew 35% year-on-year.

Two new business wins. This is built on sustained efforts over the past 2 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 has supported the scale-up. The energy storage system program is fast growing and ramping in line with our plan. Also, we are making steady progress in aerospace cabin subassemblies.

We have successfully completed the first tranche of prototypes for a communication customer where we are manufacturing control units for satellite antenna systems. We expect volume orders to commence from FY '27. Our prototypes catering to industrial processing sector and power sector have commenced.

In the semiconductor equipment, we have completed the project readiness phase for a key customer, marking an important milestone ahead of volume production. We expect this program to begin contributing meaningfully to revenue during FY '27.

The government's ISM 2.0 focus on semiconductor equipment aligns well with our capabilities and recent wins. We are progressing steadily in this space, partnering with global major to deliver Industry 4.0 compliant complex systems.

Three, opportunity pipeline. We continue to see a diverse and expanding set of opportunities progressing towards finalization with encouraging potential in both size and scope. In recent quarters, we onboarded new customers across industrial and defense segment. Products include mission-critical power inverter platforms, critical components for an integrated battlefield command system. In what could be the first to Avalon, we are bidding on exciting opportunities in advanced metal cockpit assemblies and landing gear components in the aerospace segment.

Further, we are on the cusp of foraying into cable commodity with a major customer in aerospace. Last but not the least, we are witnessing increased interest from aerospace majors in our cable and electronics commodities. These opportunities are long term in nature, and we hope to continue our focus on developing the aerospace vertical. We will continue to provide updates as projects evolve.

In summary, Q3 FY '26 reflects a period of sustained execution and disciplined profitable growth for Avalon. We delivered our sixth consecutive quarter of sequential improvement, achieved our highest revenue and profit to date, strengthened margins, improved working capital, generated positive operating cash flow and enhanced return on capital, all while maintaining a capex-light balance sheet.

Our growth remains well diversified across verticals and geographies, supported by a healthy expanding order book, steady progress in new programs and multiple growth levers coming together. Recent tariff reduction announcement of ISM 2.0, progress in semiconductor equipment and expansion into new export markets further strengthens our long-term growth outlook.

With all the 3 growth drivers gaining momentum, manpower costs stabilizing and operating leverage beginning to play out, we are well positioned for the next phase of profitable growth. We remain focused on execution and we'll share our FY '27 outlook once our budgeting exercise is completed next quarter.

With this, I would like to 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. Our growth journey would not have been possible without your continued trust and support. We are delivering strong and sustainable growth, supported by improving profitability, cash generation and capital efficiency.

Revenue growth was 49% year-on-year in both Q3 FY '26 and 9-month FY '26. This performance has been accompanied by improvement in operating cash flows, net working capital and return on capital employed.

Over the past few quarters, we have seen consistent sequential progress with each quarter building on the previous one. This reflects the strength of our diversified business model and a disciplined approach to execution capital management.

Growing domestic demand, the government's ISM 2.0 focused on semiconductor manufacturing equipment and recent trade developments to the U.S. are strengthening the Indian electronics manufacturing ecosystem.

Coming to our Q3 FY '26 performance. Revenue for Q3 FY '26 was INR418 crores, up 48.7% year-on-year from INR281 crores in Q3 FY '25 and 9.2% sequentially. For 9 months FY '26,

revenue from operations was INR1,123 crores, delivering a year-on-year increase of 48.7%, supported by diversified growth across industries and geographies.

In Q3 FY '26, revenue mix was 36% from India and 64% from the U.S. For a 9 months FY '26, the revenue mix was 38% India and 62% U.S. India grew 35% year-on-year, while the U.S. grew 59% year-on-year in 9 months FY '26.

Gross margin for Q3 FY '26 was INR143 crores with a margin of 34.2%. For 9 months FY '26 gross margin was INR389 crores with a margin of 34.6%, representing a year-on-year growth of 42.7%.

Margins remained within the guided range. During the period of elevated tariffs, we were able to pass on over 99% of the tariff impact to customers. As a result, there was no material impact on absolute margins, although gross margin percentage was impacted by approximately 100 basis points during this period.

EBITDA for Q3 FY '26 was INR48 crores, up 38.5% year-on-year with a margin of 11.5%. For 9 months FY '26, EBITDA was INR116 crores, up 59.2% year-on-year with a margin of 10.4%. Margin expansion during the quarter was driven by operating leverage as revenue continues to scale. PAT for Q3 FY '26 was INR33 crores, up 35.9% year-on-year with a margin of 7.1%. For 9 months FY '26, PAT was INR72 crores, up 83.3% year-on-year. Profitability continues to strengthen, delivering sustained profitable growth.

On the new labor code, our existing practices are largely aligned with the requirements and we do not anticipate at this stage a material impact on the group's financials. The estimated incremental impact of INR33 lakh has been recognized in the quarter. Financial implications will be further evaluated as relevant rules and clarifications are notified by the government.

Moving to the balance sheet. Net working capital days improved to 118 days in December 2025 from 150 days in December 2024, a reduction of 32 days. Inventory days improved from 103 days to 97 days, while trade receivable days reduced from 94 days to 72 days over the same period. Trade payable days increased from 46 days to 52 days.

On a quarter-on-quarter basis, net working capital days improved by 13 days from 131 days in September 2025 to 118 days in December 2025, supported by improvement across inventory, receivables and payables. In the previous call, we had guided net working capital days in the range of 120 to 130 by March 2026 and we are currently below this range as of December 2025.

Cash flow from operations was positive at INR51 crores in Q3 FY '26, supported by improved working capital management and profitable growth. As of December 31, total debt was INR143.2 crores with cash equivalents investments of INR113.4 crores, resulting in a net debt of INR29.8 crores.

Capex for Q3 FY '26 and 9 months FY '26 was INR10.7 crores and INR35.1 crores, respectively. We continue to operate a capex-light model with asset turns at 9.5x. Return on capital employed

improved to 18.8% compared to 11.3% a year ago. Avalon's dual presence in India and the U.S. provides strategic flexibility.

Our India operations offer a cost-efficient and scalable manufacturing base, while our U.S. facilities support localization and tariff management. This positions us well to support customers amid evolving trade dynamics. With improved business visibility, we have revised our FY '26 revenue growth guidance upwards to around 40% from the earlier guidance of 28% to 30%. To summarize, Q3 FY '26 delivered strong operating and financial performance, supported by broad-based growth across segments and geographies.

We continue to see growing demand from Indian customers and increasing program activity across other geographies, including the U.S. and Southeast Asia. With our established track record, dual shore operating model and expanding capabilities, Avalon is well positioned to capitalize on the opportunities ahead and support customers through the next phase of growth. Thank you. We request the moderator to open the floor for questions.

Moderator: Thank you very much. The first question comes from the line of Sameet Sinha with Macquarie. Please go ahead.

Sameet Sinha: Couple of questions. So first, congratulations on a good quarter. Secondly, talking about the guidance implication, 40%, that's obviously very strong. But that implies like fourth quarter revenue growth of about 20%, 21%. Is that your continued conservatism? Or are you thinking about it from a high base perspective because last year fourth quarter was also very strong?

Secondly, you obviously went through a series of investments to increase your operational capacity. Are those investments done? And secondly, you're talking about your growth being much higher than probably expected at least externally?

What sort of -- I mean, these high asset turns, when do you need to probably reinvest to kind of continue to grow at a high pace in fiscal '27 because that seems like several new customers coming on board, large customers coming on board in fiscal '27?

Kunhamed Bicha: Thank you, Sameet, for your kind words as well as the question. I'll try to answer all of them. If I miss something, just ask me. So we have always maintained that we'll do asset turns between 7 to 10x and we'll continue to do so. We still believe there's enough capacity looking for -- apart from the 2 new facilities coming up for space.

So we still think that our capex is around INR50 crores a year, which is lower this year, but will be around INR50 crores a year for the next couple of years at least. And in the next 2 or 3 years, we may look for a larger facility or duplicating what we have in Avalon, but not in the near term or midterm.

And again, on the first part of your question is that, yes, we are conservative, okay, because the different programs cut in at different times for us. And this last 9 months has been tariffs, no tariffs, what tariff, what percentage. So we were really reluctant to come out with a specific number because we didn't know. We didn't know what the tariffs are going to do to our business.

And I'm very happy to say the team has managed this very well and you've seen this growth in spite of the tariffs coming in, both in India as well as in our geographies. And saying that we're expanding to other geographies also so that we'll never be in this situation again where the tariffs just in our future.

So we will have it diversified, but our focus will also be on exports, just not India. And India is very key to our larger growth. Did I answer everything, Sameet? Or is there something else I missed?

Sameet Sinha: I think there was one question about your operational investments that you started at the beginning of the year and you had said that that will end by the third quarter. So has that -- all the investments you made, maybe it was headcount, maybe it was systems and operations. Are those done?

Kunhamed Bicha: Yes. You can see that in our numbers itself. It's been flat quarter-to-quarter. There will be some swings as you grow at this pace. But by far, I would say, for the existing programs, we are well covered.

But our hope is that we get much larger programs in the future. So we'll have to focus on basically people-based investments to get the right person on board. So in the short term, I think it is going to be flat or plus or minus a few points. Suresh, do you want to add something to that?

Suresh Veerappan: I think you've covered it. So there will be a combination of existing programs, which continue to ramp up from pilot phase to ramp-up phase. And then there will always be new programs will come in parallelly as well. So I think with the kind of pilot programs that are expected to ramp up in the near term, they are covered in terms of investments, but it's going to be a combination of both.

Sameet Sinha: Got it. And one final question. In terms of this 99% recovery of tariffs, is there a rupee number that you can give us like what was the leakage? I'm just trying to understand if that goes away, that doesn't become a headwind, how much your margins could expand next year?

Suresh Veerappan: So typically, we have not shared a tariff absolute number, but just to give you a heads up on that, let's say, without tariffs, our gross margin percentage would have been better by 100 bps.

Moderator: The next question comes from the line of Tanay Shah with DAM Capital.

Tanay Shah: Congratulations on a great set of numbers. And so I just wanted to confirm the numbers that you spoke in the opening commentary. We said that revenues from U.S. this time was around 64%. Is that right for the third quarter?

Suresh Veerappan: That's correct.

Tanay Shah: 64-36, right? And manufacturing was around -- can you just repeat the manufacturing number for me, please?

Suresh Veerappan: Sure. In Q3 FY '26 U.S. manufacturing is 22% and India manufacturing is 78%.

Tanay Shah: Perfect. Thanks for confirming that. Now secondly, right, in terms of areas of growth, right, while we're obviously seeing a lot of broad-based growth across applications. Across each segment, could you potentially highlight what are the particular clients which you're sort of working for, not in terms of names, but rather applications?

And going forward, how do we expect that? So we just spoke about how the existing base is obviously going to grow. So if you could just highlight some color on that. And further, the incremental growth, which is going to come through, what are those applications which your kind of looking at?

Kunhamed Bicha: So that's a tough one to answer when you are chasing broad-based growth. So we would have a time when certain parts of industrial will be split into a different vertical, let's say, when there's meaningful growth in the semiconductor equipment, we will split that out from the industrial vertical.

But what we are seeing is growth in a lot of our segments where we are focused and we are going to go deeper into the segments because some of the customers we have are Fortune 100 type customers where there's enough room to grow apart from the new customers. So whether it's a commodity or a capability, we are going to target that. Did I answer that question for you, Tanay?

Tanay Shah: Sure, sure. Sir, and obviously, the Indian margins have been -- the Indian operation margins have been extremely strong, right? And I think we're scaling up out their quarter-on-quarter. But would you sort of give some update on how we are looking to improve the U.S. burn, which we're kind of seeing right now quarter-on-quarter?

I mean, obviously, we are ramping up manufacturing out there, but any direction which you would sort of give in terms of the U.S. margin profile?

Suresh Veerappan: Sure. So with respect to U.S. manufacturing, which constituted 22% of our business for this quarter, the PAT losses are at around minus INR7 crores. If you look at the last couple of quarters, it was approximately at around minus INR9 crores each quarter. We have been talking about a possible operating leverage opportunity in U.S. manufacturing as well, alongside India manufacturing. The beginning of that is what we see this quarter.

We believe the next year with the growth in energy storage systems and some of the new businesses that we have won in U.S. can help in that direction. So we are trending towards a direction of better profitable profile in the U.S. manufacturing as well.

Kunhamed Bicha: And you also will have to recognize that in the last 9 months, which was the best thing that we could have had where having a U.S. manufacturing. So some of the programs are getting started prototyping there.

And hopefully, in the next 6 months to a year, we may start moving some of it to India manufacturing. So it's just not a factory to factory. It is also the future of export business in India is tied to that factory.

- Moderator:** The next question comes from the line of Archit Shah with B&K Securities.
- Archit Shah:** Congratulations, sir, for a very good set of numbers. Sir, first question is regarding tariffs. Now earlier because of 50% tariff, we were planning to increase our U.S. manufacturing for some tariff-sensitive clients.
- So now what is the outlook on clients, especially on the stickiness and your comfort level after being better off in terms of geographies versus our other Asian peers? Are we -- do we still stick to increasing U.S. manufacturing? Or are we keeping it at 20% around?
- Kunhamed Bicha:** The ideal goal for us is 80-20. We've always kind of said that -- I mean, but today, we have a set of customers who have come to U.S. Some of them want to stay in the U.S., do not want to take a risk for a couple of years with all these things changing on a daily basis.
- So they have decided to next 2 years, they're going to make it. And the other half is going to move when things settle down, right? Because some of these programs take 6 months to a year at least to get going. And we have started on these programs. So we will not change the prototyping from our U.S. location. And when the time comes, of course, cost does matter to the customer. He will make the choice when to move.
- But in the short term, we don't expect any knee-jerk reaction because these are large customers. They have made their policy decision or I would say, strategic decision to do one year in the U.S. and then move, but they have the option to do that.
- And once things settle down with these tariffs because tariffs also is very relative, right? It's one thing today and then things could change in 2 months, okay? So we just -- but the good thing is business is coming from all sides. Does that answer your question, Archit?
- Archit Shah:** Yes. And just one thing I didn't understand was since you're recovering 99% of tariff, how do it impact your gross margin still by 100 bps when you said that if there were not tariffs, then you could have -- your gross margin would have been better by 100 bps, right?
- Suresh Veerappan:** Okay. I'll take that. Suresh here. So absolute gross margin doesn't get impacted. But the gross margin as a percentage because we incur tariffs and then we pass it on to the customer, so both the numerator and denominator gets expanded to that extent. So as a percentage, optically, it could have been 100 bps better.
- Archit Shah:** Okay. Got it. So my second question is regarding our manufacturing margins. So firstly, despite our U.S. manufacturing base increasing to INR91 crores, INR92 crores, our EBITDA margin leans at negative 7% only yet, which was the same that earlier at INR30 crores, INR40 crores also. So are we still investing over there?
- And what kind of scale do we need to achieve to start seeing the declining trend? And secondly, on India margin, 16.7% are very strong. So are those sustainable numbers? Or is it just quarterly bps and on annual basis, we should expect around 13.5% or 14% sustainable margin?

Suresh Veerappan: Sure, Archit. So first things first, most of our business, if not all of our business are recurring type of nature, long-term businesses. So there is nothing one time or one quarter from a business perspective.

These are all long-standing customers for us. That is our key strength. With that said, our India manufacturing revenues, which constitutes 78% of our business delivered 16.7% EBITDA and 12.2% PAT.

So this significant number is something that we have been talking in the previous quarters as well where operating leverage can come and help once the revenue scales. That is what probably we are seeing in the India manufacturing side.

With respect to the U.S. manufacturing, the energy storage system business as well as some of the other new businesses started kicking in and we have been discussing about this in our calls over the last 4, 5 calls as well.

So overall, the PAT has reduced from minus INR9 crores in Q1, Q2, in the last 2 quarters to approximately minus INR7 crores now. But like you rightly said, the EBITDA is slightly higher than the previous -- EBITDA losses are slightly higher than the previous 2 quarters, primarily because of product mix. If you look at from a full year basis, let's say, give it another quarter or 2 from a full year basis, I think it should get better as well. So in a summary, I think U.S. manufacturing also in later part of next fiscal year can get much better than where it is today.

Moderator: The next question comes from the line of Vipraw Srivastava with PhillipCapital.

Vipraw Srivastava: Just quickly, sir, on the order book side, we have seen 25% growth on the order book side, whereas revenue has grown by more than that. So any reason why this slowdown or we are expecting a pickup in quarter 4?

Kunhamed Bicha: Thank you for the question, Vipraw. For me, we believe the order book has done really well in the last quarter. So it's grown 26% looking on a year-on-year basis. The business is growing faster, but the key is we're not tying all the orders, we are giving a 14-month number, okay, which is at INR2,000 crores.

And we are giving you a number, which is for 14 months to 36 months, which is INR1,183 crores. So totally, we have INR3,199 crores if you look at that for a 3-year period, okay? We've got orders from 3 years to 15 years after that. We are not counting all that in the order book.

Suresh Veerappan: Just to add to that, KB. So Vipraw if you look at our FY '25 revenues, it was approximately INR1,100 crores. Today, we have an order book of INR2,016 crores, just to put that in perspective.

Secondly, for many of the new programs, yes, we'll be probably having prototype orders right now getting reflected in the order book. So once it ramps up, the volume PO's can come and get added -- can come and get add in the later quarters.

- Vipraw Srivastava:** Sure, sir. That makes sense. And lastly, sir, on the ISM since you mentioned ISM in your introduction. So just quickly, is the company planning to go for any of these incentives in terms of goods in terms of manufacturing equipment? Or you are just optimistic that as semiconductor manufacturing comes to India, you will benefit out of -- you will be benefiting as a manufacturer or you directly want to enter this ISM scheme?
- Kunhamed Bicha:** Yes. So to answer your question, Vipraw, there's been the OSAT piece, then there's a fab piece. Now we don't know the full details yet, but the ISM 2.0 talks about semiconductor equipment. This is exactly where we are forayed into, okay? And we believe -- let the details come out. And we believe there will be something for us to finally use some PLI / ISM scheme to get going into one of the industries of focus for us. And also remember, we have just got into one customer. There's a few hundred customers out there, to put that into.
- Moderator:** The next question comes from the line of Santosh Seshadri with Avendus Spark.
- Santosh Seshadri:** Just wanted to ask a first question on this ISM 2.0. So what is the sort of revenue opportunity and TAM size that you're talking about with respect to your capital equipment manufacturing? That's my question number one. And is there any import substitution that you're seeing here? Or is it mostly an export market?
- Kunhamed Bicha:** So you -- I missed the first part. You're talking of semiconductor equipment or -- yes?
- Santosh Seshadri:** Yes.
- Kunhamed Bicha:** Yes. So this is primarily for the export market. So it will come back to India. It's just not for the Indian ecosystem. So that's why we are very much excited that once the approval, most of it is done and with production starting. There's the first set of equipment we are making. I mean the parts of larger machines. We anticipate seeing more parts come through as we go forward. So it's not only for India, but also primarily for the global market.
- Santosh Seshadri:** And on the second part of the question, is there any way to size this market opportunity in India and globally?
- Kunhamed Bicha:** We don't want to go there since it's -- we have our own calculation of where we need to be. But let us get the approval, the production going. And then we'll probably comment on that when we move this into a separate vertical in the near future.
- Santosh Seshadri:** And just one last question on this -- on the India US trade deal. So can you quantify the impact of this proposed tariff reductions? If you could give some color on the duty advantage that you have versus Mexico or other Southeast Asian countries, that would be great.
- Kunhamed Bicha:** So we've been in the U.S. for the last 25 to 30 years. So we understand the market well. In the last 7, 8 months, there have been a lot of customers on the fence because I can't say I can make it in India faster, better, cheaper, but you pay 50%, okay? So a lot of people have just put on hold. But today, with the 18% number, you're better than a lot of the Southeastern economies, better than China.

So I think overall, India stands to gain across the board. I'm just not talking about Avalon now, but across the board. And with the combination of having the U.S. front ending and India back ending over the future, that is, I think the dual model we have is where customers are confident as well as they know is just not set in stone on this tariffs, where somebody changes their mind every few months, like what happened with South Korea recently. So it is being in the 2 locations helps us quite a bit because customers are not as concerned as just taking it out and having one country specific.

Santosh Seshadri: Yes, that does. Maybe if I may just ask one more question on the impact of commodity price increase in your business. I understand that it's a pass-through for most of the EMS companies. But can you discuss if there is any lag in the pass-through? And how should we think about the impact of commodity price increase on gross margins?

Shriram Vijayaraghavan: Shiram here. Yes, recently, we have seen some commodity price fluctuations. We've -- like how we do with the tariffs, we are very active in terms of working with our customers to recoup possible.

Obviously, a lot of this, there are puts and takes here based on different customers, different materials and scenarios. So we're actively working through that and we ensure to the best of our ability, these things are covered.

Kunhamed Bicha: And we are trying to collect in the same quarter.

Shriram Vijayaraghavan: Yes, and within the same quarter.

Suresh Veerappan: Just to add to that, we were able to maintain our gross margins within the guided range of 33% to 35%, sometimes slightly more over the last 5, 6 years. So that is something that we've been doing in the past.

Santosh Seshadri: So that should continue, right?

Kunhamed Bicha: Yes, that should in all ways should.

Moderator: The next question comes from the line of Karan Sanwal with Niveshaay.

Karan Sanwal: I have a couple of questions regarding our semiconductor business. So if you could broadly highlight how big is the opportunity that we are anticipating in the semiconductor space? And what exactly...

Kunhamed Bicha: Can you just repeat the question? We just lost you for some time. Can you repeat the question, Karan?

Karan Sanwal: Yes. So we wanted to understand like how big is the opportunity in the semiconductor space? And what products exactly are we targeting in that space from the customers that we have already onboarded?

Kunhamed Bicha: So what we are doing is part of their larger system. We're not making the whole equipment. These usually are \$2 million - \$3 million machines. And we are doing small parts of that, okay? So again, we don't want to give a number, the opportunity. These companies earn hundreds of billions. So we are getting our small steps in there with the hope that it's going to be a big part of what we do.

Karan Sanwal: Understood. And sir, apart from the customers that we have already onboarded, are there any advanced talks with other customers in the particular semiconductor space? And from the customers that we have already onboarded, do we have any confirmed order book? Or is it in a prototype stage only?

Kunhamed Bicha: So the first customer is one of the top customers in the world. But we have prototyping, we have orders, product orders and things going on. And then there's the production ramp, which is what we're waiting for, for the orders to come in and all that.

Saying that, we also have a second large customer in talks, but it's early conversations. So we hope to have -- as we have to prove ourselves with one, then I think there's a lot which will follow. Because this is a very difficult market in the sense of complexity in the sense of what we need to achieve because of our box build experience is where I think we are succeeding. So I believe it's a tip of the iceberg.

Moderator: The next question comes from the line of Jeetu Panjabi with EM Investco Capital.

Jeetu Panjabi: Great going, great numbers. I have 2 broad questions. One, in the context of the current environment and also you kind of talked a little bit about all the excitement that's happening in the semi chain and all the other moving parts. My question is, as a management team, what are the 2 or 3 pieces on a 12, 18 month that is most visible and exciting to execute on both in India and the U.S.? And the second -- let me -- I'll ask the second question after we go through this one. But what I'm just trying to get is some color on what seems visible, tractionable and growable quite well over the next 12, 18 months? And what's exciting within that?

Kunhamed Bicha: This is of course, like you mentioned, we've got the semiconductor vertical. We also, in the industrial side, have a certain set of -- how do I put this? In the transmission business, as they all go through a power super cycle, whether it's in India, U.S., wherever in the world with the data centers coming in, we are hoping to play a role in which we believe that we have started in India with one of the global majors and start in the U.S. with the other global major.

So I think that kind of excites us because this is a 10, 20-year business. When we look for businesses, we don't look for today's orders. Is this sustainable over 5 to 10 years, right? So, some of the aero businesses are 15-year contracts. So we can invest and reap the benefits of -- for the next 10 to 15 years to come, right? So that's -- the aero business is growing, okay, which is another exciting -- the number of planes which are coming out.

We have number of parts in the 2 majors through Tier 1s. And I think that number will grow because the aero, if you look at it, it has grown 60% year-over-year in this quarter. So these are -- the type of business we look at is it sustainable over a long period of time. That's why we're

not in the consumer business. That's why we are in certain businesses, which come and go, which are price sensitive. We don't get into that in the long term.

Jeetu Panjabi:

Okay. And I'm fully supportive of not being in the consumer business and staying focused on the B2B side. The second question is, if we kind of hear the whole commentary so far and what you all are talking about, would it be fair to assume that the growth rates in FY '27 sustain at the same levels they've done in '26? Like I mean, would it be fair to kind of think a 25%, 30% top line growth and sustainable margins over the next 12, 18 months?

Kunhamed Bicha:

I believe that we will do that number you mentioned and more. We are conservative in our approach, but we don't just want to come out and tell the numbers. So for example, this year, we have upward revised because we didn't know how -- where the world is going, 3x, okay?

So -- and we will continue to do that, but we are very confident of the future. And you look at us from a 3-year period, of course, there will be one small quarter here or there where we have an issue.

But longer term, we are very confident because the number -- the business that we signed like the last time -- last question I answered, is for the next 5 or 10 years, right? So once it comes in, it stays there.

Suresh Veerappan:

Suresh here. Just to add to that, the last 6 quarters our average growth has been around approximately 46%. And some of the new programs, what we are getting in have a long product life cycle and we're just in the beginning of the cusp of it ramping up, which means the amount of opportunity is also exciting for us.

It is just that we are in the process of completing our budget so that we'll be able to give a better picture for FY '27 once we complete that. But just like in the past, I think the next 3 to 5 years is looking promising for us as a company.

Jeetu Panjabi:

No, absolutely. And I have one -- so look, I was just trying to get color on high-level growth trajectory and I think that's a very fair comment you've given. But my last question is assuming this tariff deal doesn't happen in the same format, it's been kind of headlined at, 18%. But if it doesn't happen, does that in any way change your trajectory? Or is your trajectory teneted on this playing -- the tariffs playing out as articulated?

Kunhamed Bicha:

That future, I think, lies in the government. We can't comment on it. When it changes, it changes. We are hoping it goes downwards and not upwards. But if you take the past, how we dealt with the last 9 months or 10 months since this tariff thing started, we have not broken our stride, okay?

We have continued growth. It was confusing to tell when we are going to grow, but we've been persistent and some amount of luck also that we have continuously grown. So I think that will continue. And if a curve ball is thrown on us, I think we will survive. It's not -- nothing has stopped because of the long-term nature of our customers and products and it takes months or even year or 1.5 year to change.

So even the customers decided let's stick and see what's going to happen, right? So it's happened in a positive way now. But through the whole process, they've been very supportive to what we're doing.

Suresh Veerappan: To add to that, the opportunities what we have are domestic, which is India for India. And over the last year or 2, we have also grown the opportunities on India for Southeast Asia exports. Plus within the last 9 months, the U.S. for U.S. is also activating in a nice way. With these 3 growing, how would the tariff reduction, the fourth growth lever on India manufacturing for U.S. customers has added to that. So our growth opportunities are well diversified, not dependent on one geography or one industry or one set of opportunities. It is well diversified in its true sense.

Jeetu Panjabi: Okay. And if I can sneak in one more quick question, which is this whole BESS opportunity, which we're seeing in a very significant way coming out in power solutions that people are offering end customers, does this seem -- will this over the next 2, 3 years be a significant part of your entire offering?

Kunhamed Bicha: I believe and what we -- yes, yes. So this we do because it's country for country, right? So in the U.S., they want to make in the U.S. And this we have worked on for 4 years or more, okay? Finally, the fruits of the labor has come through and it is going to be a significant play for us into the future, okay? And we've already ramped up -- and ramping up further and we are really excited on that. And the company is well positioned to execute it, not only as our customer is, well sought after product now, it's the highest end of BESS.

Moderator: The next question comes from the line of Avinash Nahata with Parami Financial Services.

Avinash Nahata: Two quick questions. One is what is the 9-month number for the cash flow from operations, if I would have missed out?

Suresh Veerappan: INR41 crores would be 9 months of FY '23 cash flow from operations. Q3 is INR51 crores.

Avinash Nahata: Nine months, you said is INR40 crores and...

Suresh Veerappan: Nine months is INR41, Q3 is INR51 crores.

Avinash Nahata: Okay. Got it. And with scale, what is the improvement in net working capital possible over the next 1 or 2 years? We have done so far, a very good job coming from INR160 crores-odd to INR118 crores. So what is the, I mean, fair assessment from your point of view over the next 1, 2 years?

Suresh Veerappan: In the past, we have operated even better than this. But with the current growth rate, I think what we had earlier guided was 120 to 130 days by March '26. We've already surpassed that by reaching 118 days by December '25. We hope to improve and maintain -- maintain and improve on this trajectory over the next 2, 3 years. Let's say, by another -- let's wait for the budget -- for our budget to complete. So we'll be able to share a little better picture on FY '27, but we are in the path of improving the net working capital.

Shriram Vijayaraghavan: Yes. Just to add to that, Shriram here. So we've had a quarter-over-quarter improvement in net working capital across inventory, receivables and payables. This is a structural improvement that we've been working on for a while and you're seeing the fruits -- the benefits of that now. We're hoping that this continues over the next few quarters and we will keep updating you as to how we are progressing on this. We expect to continue this trajectory going forward as well.

Moderator: Ladies and gentlemen, we'll take this as the last question. It's from the line of Archit Shah with B&K Securities. Please go ahead.

Archit Shah: Just one question. In our clean energy business, one of the large portfolio is for the energy storage system in the U.S. So we manufacture one of the customers who does this for residential customers over there. So is this revenue for our customer dependent on government subsidy in U.S. for the solar products, energy storage products, battery management products? And if so yes, then what is the visibility on government policies over there? And could it be affected by any, let's say, take back the subsidy or anything?

Kunhamed Bicha: The fastest-growing segment in clean energy in the U.S. is battery systems for storage. It's been growing in the last couple of years. And it's not impacted by the pulling out subsidy in the sense which happened in the wind and some of the other solar stuff. This is a focus for U.S. because of the grid and with all the data centers coming in. So they're getting closer to home. And I think this is supposed to -- so -- but the only issue is that you have to make it in the U.S. And we are well positioned for that, and that's what we're doing. Though some subparts go from India.

Archit Shah: Okay. So one of the requisites is that we have to make in U.S. for those parts and you cannot transfer it to India for manufacturing?

Kunhamed Bicha: Part of it. So we do the subsystems here and then final there.

Moderator: Thank you. Ladies and gentlemen, which was the last question for today. With that, we conclude today's conference call. On behalf of JM Financial, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.