

April 01, 2023

IPO Note

## IPO NOTE

### Issue Details

**Price Band: ₹ 415 to ₹ 436**  
**Issue Opens on: April 3, 2023**  
**Issue Closes on: April 6, 2023**  
**Lot Size: 34 Shares & in Multiples thereafter**

### Issue Highlights

**Issue Size :** ₹ 865 Cr.  
**No of Shares :** 19,839,449  
**Face Value :** ₹ 2

### Offer Structure

Issuance	₹ in Cr.
Fresh Issue	320
Offer for Sale	545
<b>Total</b>	<b>865</b>

### Issue Breakup

Reservation for	% of Issue	₹ in Cr. (at upper band)
QIB	75	648.75
HNI	15	129.75
Retail	10	86.50
<b>Total</b>	<b>100</b>	<b>865.00</b>

### Listing

**BSE & NSE**

### Lead Managers

- JM Financials
- Nomura Financials
- IIFL Securities Limited
- DAM Capital Advisors Limited

### Registrar

**Link Intime India Pvt. Ltd.**

### ANALYST

**Krishna Rana**

krishna.rana@sushilfinance.com  
 +91 22 4093 6081

### SALES

**Manan Divan**

manan.divan@sushilfinance.com  
 +91 22 4093 6091 / +919819819979

## COMPANY OVERVIEW

Avalon Technologies is one of the leading fully integrated Electronic Manufacturing Services (“EMS”) companies with end-to-end operations in delivering box build solutions in India in terms of revenue in Fiscal 2022 with a focus on high value precision engineered products. They provide a full stack product and solution suite, right from printed circuit board (“PCB”) design and assembly to the manufacture of complete electronic systems (“Box Build”), to certain global original equipment manufacturers (“OEMs”), including OEMs located in the United States, China, Netherlands and Japan. The end-use industries they cater to include a mix of established and long product lifecycle industries, such as industrial, mobility and medical devices and high growth “sunrise” industries, such as solar, electric vehicles and hydrogen in the clean energy sector and digital infrastructure in the communications sector.

They have a unique global delivery model, comprising design and manufacturing capabilities across both India and the United States. They are the only Indian EMS company with full-fledged manufacturing facilities in the United States. They have 12 manufacturing units located across the United States and India.

## HIGHLIGHTS

1. “One Stop Shop” for electronics and electro-mechanical design and manufacturing services
2. High entry barriers to business
3. Well-diversified business
4. Established relationships with marquee customer base

## Objects of the issue

**Fresh Issue up to ₹ 320 Cr. and Offer for sale up to ₹ 545 Cr.**

The details of the proceeds from the Fresh Issue:

1. Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company and one of their Material Subsidiaries (Rs. 145 Cr.)
2. Funding the working capital requirements of the company (Rs. 90 Cr.)
3. General corporate purpose.

Company will not receive any proceeds from the Offer for Sale.

## OUR VIEW

Avalon Technologies is a fully integrated EMS provider and continue to expand their offerings. They have a significant level of vertical integration in the EMS industry. They have a unique set of customers for each capability. Their electronic manufacturing facilities comprise an aggregate of 66 production lines, consisting of 11 Surface Mount Technology (“SMT”) lines, 12 Through Hole Technology (“THT”) lines and 43 assembly lines.

Company has healthy financial position. Their assets and revenue has followed similar trend of growth of around 14% from FY20 to FY22. Its bottom-line has shown upward movement of CAGR growth of 135% in last three years. Its EBITDA margin, ROE and ROCE stood at 11.6%, 85.9% and 27.4% respectively at FY22. Its Debt to Equity ratio is improving since FY2020 but still considerably higher at 2.99x at the end of November 2022.

At upper price band of Rs. 436, the issue is priced at P/BV of 27.95 at NAV of Rs.15.6 as at Nov.30, 2022. If we annualize FY23 earnings, then the asking price is at P/E 49x. The industry average P/E is ~76x. The issue seems reasonably priced when compared to peers which have a trading range of 49x to 106x.

**The company has well diversified business leading to strong growth. Its revenues and margins improved significantly in the last few years. Its financial performance has been consistently stable with a notable increase in margins over the past three fiscal years. However, the company faces a significant risk with its high reliance on limited number of customers and serving to specific market.. Additionally, currency fluctuations pose a risk to its operations. Weighing these favorable and unfavorable factors, and looking at the current uncertain markets, Risk Seeking investors can invest with medium to long term horizon.**

### Brief Financials

PARTICULARS	₹ in Million			
	As at NOV. 30, 2022	FY '22	FY '21	FY '20
Total Income	5,969.75	8,516.50	6,958.97	6,531.48
Total Expenditure	5,495.89	7,852.09	6,670.68	6,378.53
EBITDA	680.56	975.48	661.44	644.79
Profit before Tax	473.86	864.31	288.29	152.95
Profit after Tax	341.86	681.64	230.82	123.26
E.P.S.	6.10	11.30	4.01	2.21
P/E (x)	-	37	-	-
RONW (%)	27.17%	85.86%	40.36%	25.19%

### PRICE CHART (@ ₹ 436) (Retail Category)

LOT SIZE	Amount
436	14,824
872	29,648
1,308	44,472
1,744	59,296
2,180	74,120
2,616	88,944
3,052	103,768
3,488	118,592
3,924	133,416
4,360	148,240
4,796	163,064
5,232	177,888
5,668	192,712

### HNI Payment Chart

Category	Minimum Bid Lot Share	Minimum Bid Lot Amount(Rs.)
Between ₹ 2 to ₹ 10 Lakhs	476	₹ 207,536
Above ₹ 10 Lakhs	2,312	₹ 1,008,032

### Indicative Time Table

Tentative Events	Indicative Dates
Finalisation of Basis of Allotment with the Designated Stock Exchange	12/04/2023
Initiation of refunds/unblocking ASBA Fund	13/04/2023
Credit of Equity Shares to demat accounts of Allottees	17/04/2023
Commencement of trading of the Equity Shares on the Stock Exchanges	18/04/2023

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