



“Avalon Technologies Limited
Q4 FY26 Earnings Conference Call”
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MODERATOR: **MR. SUMANT KUMAR – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Avalon Technologies Limited 4Q FY26 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. 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 Mr. Sumant Kumar from Motilal Oswal Financial Services Limited. Thank you. And over to you, sir.

Sumant Kumar: Yeah. Good afternoon, everyone, and a warm welcome to Avalon Technologies 4Q FY26 Post Results Earnings Call hosted by Motilal Oswal Financial Services. To take us through the results today, we have with us from the management, Mr. Kunhamed Bicha, Chairman and Managing Director; 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 remarks on financial performance, post which we'll open the floor for Q&A. As we move forward, it is important to bear in mind that any forward-looking statements made during this call are subject to potential risks and uncertainties, both known and unknown.

Now without any further delay, I will hand over the floor to Mr. Bicha for the initial remarks, the CMD. Thank you. And over to you, sir.

Kunhamed Bicha: Thank you, Sumant. Good afternoon, ladies and gentlemen. On behalf of Avalon Technologies, a very warm welcome to our Q4 and full-year FY26 Earnings Call. I want to begin by thanking our investors for your continued trust and support. Your confidence in us has been instrumental in enabling us to execute consistently, invest with discipline and build a business that is both resilient and scalable.

FY26 has been our best year. And Q4 is our seventh consecutive quarter of growth. But what stands out is not just the growth rate, it is the quality of it, profitable, broad-based and consistent across verticals and geographies. We delivered a 46% revenue growth for the full year, higher than our 40% guidance. On net working capital, we reported 112 days, better than our guided range of 120 to 130 days. Our ROCE improved to 20.6%.

On revenue, profitability, working capital and ROCE, we have delivered improved performance across all the key metrics. We have also made steady progress in new product introductions, especially on semiconductor manufacturing equipment and power systems. All 3 of our growth engines are gaining momentum together, and that is the foundation of our journey forward.

Moving to the financial highlights. For Q4 FY26, revenue came in at INR480 crores. Gross margin was at 33.7%, within our guided range of 33% to 35%. EBITDA margins came in at 11.8%, up from 11.5% in Q3. Operating leverage is playing out as revenue scale. PAT for the quarter was INR41.2 crores.

For the full-year FY26, revenue was at INR1,603 crores, up 46% year-on-year. Gross margin for the year was 34.3% at the upper end of our guided range. Full-year EBITDA margin was at 10.8%. Full-year PAT was INR113 crores. Our average revenue growth over the last 7 quarters has been 45%. As of March 31, 2026, our order book grew 24.7% year-on-year to INR2,196 crores with an average execution period of 14 months.

In addition, long-term contracts with execution timelines ranging from 15 to 36 months is at INR1,245 crores. Order book growth remains well diversified across industry verticals and geographies. India manufacturing operations, which continue to serve both domestic and global customers accounted for 77% of our revenue in Q4 FY26, delivering healthy profitability at an EBITDA margin of 16.7% and a PAT margin of 12.2%.

Revenue from our U.S. operations contributed the remaining 23%. Losses in U.S. manufacturing have continued to narrow, coming in at approximately INR5 crores in Q4 FY26. We are working towards a breakeven in U.S. manufacturing in the later part of FY27. Our presence in both India and U.S. gives customers the option to start in the U.S. and later transition to India or come directly to India. In FY26, revenue mix was 38% from India and 62% from U.S. India business grew 29% year-on-year, while the U.S. business grew 59% year-on-year.

Moving to segment-wise contribution. Industrial contributed approximately 34% of our revenue, growing at 65% year-on-year. Mobility contributed 28%, growing at 50% year-on-year. Within mobility vertical, rail accounted for 16% and aerospace for 9%. Clean energy stood at 20%, growing at 45% year-on-year, driven by the ramp-up of our energy storage systems. Communications contributed 8%, growing 58% year-on-year.

Our mantra to focus on mission-critical complex box builds continue to gain traction. Box build has increased from 44% 4 years ago to 56% in Q4 FY26. This highlights the deep integration we have with our customers and drive stickiness and long-term potential. Net working capital continued to improve through the year. On a year-on-year basis, net working capital improved by 12 days from 124 days in March 2025 to 112 days in March 2026.

Receivables reduced by approximately 12 days year-on-year. Inventory improved by 2 days as programs moved into execution phase. Payable days reduced by approximately 2 days year-on-year. Overall, the improvement in net working capital delivered a positive cash flow from operations of INR57 crores in FY26.

We continue to follow a capex-light model. Asset turns are approximately 9.9 times. Net debt-to-equity ratio is around 0.06. Return on capital employed stands at 20.6%, a meaningful improvement from 10% 2 years ago.

Now looking at the macro environment, it continues to stay positive. The reduction in U.S. tariffs on Indian goods makes India manufacturing for customers more competitive, and we are seeing increased engagement as a result. Importantly, the period of elevated tariffs also helped us accelerate a new set of business opportunities. We added new program wins in the U.S. as customers look to diversify their supply chains and reduce risks. This is over and above the wins in the India domestic business.

We have also made progress in expanding exports into Southeast Asia, further broadening our geographic footprint. The government's focus on semiconductor equipment under ISM 2.0 aligns well with our capabilities and business we have recently won in this space. Our efforts to build a meaningful sales presence in Europe over the last few quarters also coincides with the India-Europe trade deal. Taken together, domestic demand, U.S. export opportunity and new geographies, the structural tailwinds are intact.

Now, moving to our key growth drivers. Our existing business continues to provide a strong, steady foundation, long product life cycles, mission-critical programs and recurring revenues across rail, aerospace, industrial, clean energy and communications. On new business wins, the programs we have been building over the last 2 to 3 years are now progressing well.

Our energy storage system program continues to ramp in line with plan. Aerospace cabin subassemblies have progressed, passed first practical inspection and are moving towards volume. Production of locomotive engine subsystems has commenced.

The Kavach anti-collision system has completed testing and is on track for commercial production. In semiconductor equipment, we have completed the project readiness phase with our global partner, a meaningful milestone ahead of volume production expected in FY27.

For our satellite communication customer, we have successfully completed the first tranche of prototypes for control units and expect volume orders from FY27. Prototype for industrial processing and power sector customers have also commenced.

On our opportunity pipeline. We continue to see healthy and expanding set of opportunities. We are seeing increased interest from aerospace majors in various commodities. We are also pursuing opportunities in advanced metal cockpit assemblies and landing gear components, areas where we have not previously participated.

The 3 large U.S. customers we onboarded last quarter across industrial and defence are progressing from prototype towards production. And as mentioned earlier, Southeast Asia and Europe are adding new dimensions to our geographic reach. Taken together, all 3 growth engines are gaining momentum, and we expect this to increasingly reflect in our numbers through FY27 and beyond.

On revenue guidance, we have previously committed to doubling revenues from FY24 to FY27, a target of approximately INR1,725 crores. We are almost there, a year ahead. That gives us confidence to set our sights on further doubling in the next 3 years. That is from the higher base of INR1,603 crores in FY26 to approximately INR3,200 crores in FY29. The order book is healthy, new programs are entering production and our customer base continues to expand.

The foundation for the next doubling is already in place. And from a multi-year perspective, we are confident of our growth. On FY27, we believe our growth story will sustain and continue. We always seek to be conservative and hence, guiding for a revenue growth of 24% to 27%.

In summary, FY26 has been a defining year for Avalon, strong revenues, improved profitability, better margins, a stronger balance sheet and better capital efficiency, all delivered together. Our order book is healthy. Our 3 growth engines are aligned, and the external environment remains supportive. We enter FY27 with clear visibility, a strong pipeline and the confidence that comes from consistent execution over 7 consecutive quarters.

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

Suresh V.R.:

Thank you, KB. Good afternoon, everyone. Let me take you through the financials in detail. Revenue for Q4 FY26 was INR480 crores, up 40% year-on-year from INR343 crores in Q4 FY25 and up 14.9% sequentially from INR418 crores in Q3 FY26.

For the full-year FY26, revenues were at INR1,603 crores, reflecting 46% growth year-on-year, ahead of our guided range of 40%. Gross margin for Q4 FY26 was INR162 crores at a margin of 33.7%. For the full year, gross margin was INR550 crores at 34.3%, at the upper end of our guided range of 33% to 35%.

I would like to note that during the period of elevated tariffs, we passed on substantially all of the tariff impact to customers. So, absolute gross margins were not affected. However, since both revenue and costs were grossed by the tariff pass-through, gross margin percentage was optically impacted by approximately 110 basis points. Adjusting for this, our underlying gross margin performance was better than the reported percentage suggest.

EBITDA for Q4 FY26 was INR57 crores, up 37.5% year-on-year with a margin of 11.8%, up from 11.5% in Q3 FY26. For the full year, EBITDA was INR173 crores at a margin of 10.8%, reflecting year-on-year growth of 50.9%. The sequential margin improvement reflects operating leverage as revenue scale.

PAT for Q4 FY26 was INR41 crores, up 69.5% year-on-year with a margin of 8.4%. For the full year, PAT was INR113 crores, reflecting year-on-year growth of 78% and a margin of 6.9%. Finance costs for the year were INR15 crores and depreciation was INR34 crores. On working capital, trade receivable days improved from 84 days to 72 days year-on-year.

Inventory days improved from 86 days to 84 days as programs moved into execution phase. Trade payable days moved from 46 days to 45 days. Overall, net working capital improved by 12 days year-on-year to 112 days in March 2026, better than our guided range of 120 to 130 days.

On a sequential basis, net working capital improved by 6 days from 118 days in December 2025, supported by improvement in inventory. The sustained improvement in working capital supported cash flow from operations of INR57 crores in FY26 compared to INR25 crores in FY25. As of March 31, 2026, total debt was INR183 crores, with cash and investments of INR143 crores, resulting in a net debt of INR40 crores.

Net debt-to-equity ratio stands at 0.06, a very comfortable position. Capex for Q4 FY26 was INR21 crores and INR56 crores for the full year. Asset turns are at 9.9 times, and return on capital employed improved to 20.6% from 15.7% a year ago, a consistent and meaningful improvement.

As KB mentioned, we doubled our revenues ahead of schedule. We are now committed to doubling again from the higher base of INR1,603 crores in FY26 to approximately INR3,200 crores by FY29. The balance sheet is clean, working capital is improving and operating leverage is playing out. The financial foundation for that journey is firmly in place.

With that, I request the moderator to open the floor for questions. Thank you.

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

Tanay Shah: Congratulations on an amazing set of numbers. I think we've truly seen all our efforts translating into the growth, which we've delivered. Sir, my first question is on any potential supply chain disruptions with respect to components? I mean, order books are strong, and we're seeing healthy growth coming into the quarters. But any sort of supply chain disruption which we're seeing?

Kunhamed Bicha: Shriram, you want to answer that?

Shriram Vijayaraghavan: Yes. Sure. Hi, Tanay. Right now, I mean, there are a few things here and there, but nothing that's adversely affecting us. As you know, we service mostly industrial mobility and clean sectors. For these, at the moment, visibility is okay.

Tanay Shah: All right. So, don't expect any major pressure on margins or anything of that sort given the supply chain problems.

Kunhamed Bicha; We don't see any effect, okay. Saying that, what I would say is we saw the tariffs, which was the question of last year, right? We've managed through that. So, I think our gross margins will hold between the range we have specified.

Tanay Shah: Sure. Sure. Sir, my second question is on all the incremental growth drivers, which we spoke about across sectors. Could we possibly speak a little more about them in detail as to what are we trying to do out there? I mean, just a little more on the product specification, if you could, and the potential size, which it can deliver for us into our revenues going forward?

Kunhamed Bicha: So, Tanay, I'll give you with our verticals, our growth, right? So, industrial is 34% of our business. It grew at 65%, and it will continue a high growth rate. Mobility is at 28% of our sales. It's growing at 50%. Clean energy is at 20%, growing at 45%. So, you're going to see a broad-based growth.

It's not lumpy because in our business, once the business comes in, it sustains for the next 5, 10 years. It's not which comes and goes and products don't change over a period of time. So, once it comes into production, it normally stays and these are larger Fortune 100 type companies who are working with us. So, I don't see too much of a lumpy sales. Once it comes in, it's going to stay.

- Tanay Shah:** Understood, sir. And sir, my last question is on the U.S. manufacturing. Obviously, it's inched up on a quarter-on-quarter basis due to the tariffs. But what do we expect it as a percentage of sales going forward? Should it be at around this 20%, 22%? Or should it logically inch up a little higher with the U.S. execution happening with our customer out there? And if so, then the control on margins out there? And how do we expect to breakeven and how soon would that be? Thank you.
- Kunhamed Bicha:** So, I'll talk about the first part of your question, and Suresh will talk about the second part. So, you're seeing growth from all side. Close to 77% to 80% is Made in India for India and for export, and that is our focus, okay? How we get customers into this model is via the U.S. factory. That is the primary reason.
- The secondary reason, you know, during these tariff times and all that, it was easier to onboard customers in the U.S. and then give them time to transfer to India. So, we anticipate this 80-20, 78-22, that kind of range, and that is what is in our planning. The more that comes to -- for Indian manufacturing, better off we are. But this is something, which we need for our future as well as the confidence from customers on having local support.
- Suresh, you want to answer the second part?
- Suresh V.R.:** Just to add to that, in FY26, 79% of our business is from India manufacturing and 21% is from U.S. manufacturing. So it has been around this range of 19% to 23%, which is what we have been discussing in the earlier calls. And the operating leverage benefits are expected, both from our India manufacturing as well as from our U.S. manufacturing plants. So, that's the way forward that we are looking at.
- Moderator:** Our next question comes from the line of Adhiraj Singh from Amicus Capital Partners.
- Adhiraj Singh:** Sir, firstly, congratulations on a good set of numbers. I just had a couple of questions. First, when we look at the growth, so we have grown by 46% this year. You have added about INR500 crores of revenue this year. So, how much of this additional revenue or growth is coming from new customers programs, essentially programs, customers that you would have onboarded 1.5 to 2 years back? And how much of the growth would be from vintage programs and customers?
- Kunhamed Bicha:** It's very broad-based and depending on the size of the customer cut-in, it could vary anywhere from 75% to 85%. Two-third – one-third is what you probably need to look at, but it varies. You may have a certain much larger customer cut-in that varies a little bit. But the next year, they become existing customers, right? We are developing and managing these programs into production at least 18 months ahead. So, that gives you a broad range on what we think it is.
- Suresh V.R.:** Just to add to that, Adhi, so typically, the average life cycle of a customer with us is very long and product life cycle is also long. So, a customer who is this year and new will become an existing customer and then they continue for over a period of 8 to 10 years.

- Adhiraj Singh:** No, fair, that I understand. I mean, I just wanted to understand in this INR500 crores, how much would be coming in from, let's say, programs that you would have started 1, 1.5 years back and how much from the vintage programs?
- Kunhamed Bicha:** Around 70 will be existing and 30 will be approximately. Okay.
- Adhiraj Singh:** Okay. I understood. And second question, sir, a number of your peers are getting into components manufacturing, like PCB manufacturing and have gotten ECMS scheme for that. Do you have any plans to get into components manufacturing?
- Kunhamed Bicha:** So, we are very focused on what we do. So, we are a box build, high-end box build, complicated technology-oriented box build. We will look for further business in that segment instead of trying to do a greenfield, though there's a lot of money available for that. We think there's enough growth in what we do. Managing growth is what we strive on doing. And I think instead of going in multiple directions, we like to stay focused and deliver on what we say.
- Moderator:** Our next question comes from the line of Santhosh Seshadri with Avendus Spark.
- Santhosh Seshadri:** So basically, could you help us...
- Moderator:** I'm sorry to interrupt you, sir, Mr. Santhosh. In case you're using the speaker mode, may I request that you use your handset mode, please? Sir, your audio is not very clear, sir. Thank you.
- Santhosh Seshadri:** Better now?
- Kunhamed Bicha:** It sounds better, Santhosh.
- Santhosh Seshadri:** My first question is on the quarterly revenue trajectory across different verticals, maybe specifically for the clean energy as well. Given that the U.S. business is ramping up and there is a usual 1Q seasonality that we have observed historically, how should we think about the dynamics, quarterly dynamics? And also if you could give some colour on the cadence for other divisions as well, that would be helpful.
- Kunhamed Bicha:** So for us, that doesn't play out as much, okay? So, we try to level load our production across -- our customers tend to do that instead of -- because -- only certain businesses, which are government-oriented could have this issue. But we have not seen that as much. So if you look at quarter-to-quarter, it's been fairly consistent, whether it's growth or whether it is -- and in clean energy, we're going to see growth, okay, for the near future or foreseeable future. So it's not seasonal for us as far as we know.
- Santhosh Seshadri:** Got it. And just to be clearer, our first quarter FY or maybe like first half FY27 revenue could be sequentially higher than last year, right?
- Suresh V.R.:** Santhosh, Suresh here. We would request you to look at us from a 3-year perspective. In the opening remarks, we would have highlighted that from a higher base of INR1,600 crores in FY26, we are looking to double it in FY29. And we generally do not give a quarterly revenue growth guidance.

- Kunhamed Bicha:** Saying that, we are very confident.
- Santhosh Seshadri:** Fair enough. And just one more question. And given our aspiration to double our revenues over the next few years and considering that our asset turns are already closer to 10 times, how should we think about the incremental capex and also about the timing of capex in capacity expansion?
- Kunhamed Bicha:** So it's -- at least for me, it's not aspirational. We're going to do that, okay, the doubling, okay. So saying that, see, when we started talking of doubling in '24, we're supposed to double by '27. And we are close to 1-year ahead of that schedule. We are close to doubling already. So, we'll continue the same momentum. There may be a few quarters up or down. But if you look at a sort of 3-year time frame, we will do what needs to be there to do that, okay? Did I answer question or is the last part which I...
- Santhosh Seshadri:** From a capex perspective?
- Kunhamed Bicha:** From a capex perspective, as far as we know, we'll continue. Our aspiration is to keep the ROCEs higher than 20% and keep the asset turns between 8 and 10 times. And we still believe that with this capex, as far as we know today, we are going to have that for this rate of growth.
- Santhosh Seshadri:** And any particular time line that we are contemplating to spend this capex?
- Kunhamed Bicha:** Usually, we say INR50 crores to INR60 crores, maybe a little bit over, over the next year. I mean that's annually, yes.
- Suresh V.R.:** So Santhosh, in FY25, our capex was INR58 crores. In FY26, our capex is INR56 crores. And so for us to continue this trajectory of growth, we do not foresee any major capex in the near term that we can see.
- Moderator:** The next question comes from the line of Mehul Panjuani from 40 Cents.
- Mehul Panjuani:** Okay. Thank you so much. Sir, my first question is about how much of our future order book growth can we expect from the box build and system integration opportunities versus the traditional PCB assembly?
- Kunhamed Bicha:** We historically look at it. Around 3 years back, we were around 44% of box build. And our aspiration is to grow that number. And today, last quarter, we are at 56%. So, we'll continue that trajectory. And for us, that's why we are very vertically integrated to achieve that, okay? So, we'll continue on that. And that is our goal. We may start with a certain commodity, but our goal is to do the whole box in a 2- to 3-year period with the customer.
- Mehul Panjuani:** And sir, what kind of margin differential -- how much higher margins can we command for box build compared to the traditional?
- Kunhamed Bicha:** Usually, it's higher because it's vertically integrated. So, I don't want to get into how much, okay, because that depends on industry, that depends on vertical, that depends on commodity. If more of a certain commodity, you'll have a better margin. So ultimately, we look at it as a box build.

- Mehul Panjuani:** Right. Right. Sir, I'm not sure if you have answered this one, but my question is about what is our margin aspiration? Currently, our margins stand at 11%. So, do we have any operational levers to improve our margins beyond 11%?
- Kunhamed Bicha:** So if you look at our 80% of our business, which is India manufacturing, EBITDA is at 16.7% and PAT is at 12.2%. So, we are already high up there in 80% of our business. This quarter, I think it was 77% of our business. And then with U.S. breakeven and with the leverage playing out there after breakeven, we see some room to improve.
- Mehul Panjuani:** Right. Sir, are we expecting any capex in FY27?
- Suresh V.R.:** So, our regular capex has been in the last 2 years in the range of INR55 crores to INR60 crores. So, we see something similar there. Nothing major at the moment.
- Moderator:** The next question comes from the line of Sameet Sinha with Macquarie.
- Sameet Sinha:** And I echo some of the sentiments. It's been a really, really strong year and great execution. I guess my first question would be in terms of your guidance for next year. I know last year, you started at 18% to 20% year-over-year growth, and you ended the year at 46%. So, that's been tremendous. Should we assume a certain degree of conservatism guidance for the guidance that you've given for fiscal '27?
- The geopolitical situation is still -- is pretty fragmented right now. So, I just wanted to get some colour on that. Second question is in terms of your Make in India for India. That revenue growth slowed to about 13% year-over-year. Is that basically because of a high base? I have a follow-up question after that.
- Kunhamed Bicha:** Okay. On your first question, Sameet, you asked the question every time. So, we are generally conservative in nature with the things going around in the world. Every time we want to commit higher, we just -- with the macroeconomics, we want to be conservative. Number two is that the programs cutting in are fairly large in size.
- It could cut in this quarter or a quarter from now, which we don't control as much, our customer does. So ultimately, it's all there. When it cuts in and how it cuts in at what time frame, right? So, that's the conservative nature of what we're saying apart from the macroeconomics.
- Suresh V.R.:** And in terms of the percentages that you mentioned, Sameet, if you look at FY26 as a whole, then the India manufacturing business grew by approximately 33%. The growth has been broad-based across industry verticals, across geography, across manufacturing locations as well.
- Sameet Sinha:** Got it. One -- my final question from my side, and this is a real inflection that I saw in your fund generated free cash flow, right, which I define as cash flow from operations minus capex. Is that something of a goal that you want to continue to scale the positive territory with that metric?
- Kunhamed Bicha:** See, we always -- and I'll let Suresh get into detail of it. But from our perspective, we always want to maintain the ROCE as a number we strive for, okay, the asset turns we strive for, okay? And unless we do this business, I think we can manage that between 8 and 10 times of asset turn.

With that play in mind, that's what is built into all of us. We try to grow with that, okay? And a lot of times, most of this capex is going for building and infrastructure.

Suresh V.R.: Just to add 2 points there. A couple of years ago, in FY24, our ROCE was 10%. And then right now, it is at 20.6%. And the second aspect on the operational cash flows, FY25, our operation cash flow was INR25 crores, and now we are at INR57 crores. So, both the working capital improvement, the focus on working capital improvement and the focus on maintaining a high asset turn are helping us get those operational cash flows and maintain and improve the ROCE.

Sameet Sinha: Sorry, sir. If I can just add on to that one. So, when you double your revenues from this year onwards, what is the expected ROCE at that point? What's your goal?

Suresh V.R.: So, we'll put it this way. In the past, we have operated at 25%. So, I would say if there is a target for us to march over a period of time, then that should be some goal.

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

Karan: Congratulations on good set of numbers. I had a few questions regarding the semiconductor business that we have onboarded. So, if you could help us understand how are we -- if you can quantitatively state how is this program expected to ramp up and what kind of competition are we doing with against and what kind of products you would be catering to in this segment?

Shriram Vijayaraghavan: Yes, hi, Karan, Shriram here. So, for the semiconductor equipment, we are building complex box build, right? Really state-of-the-art complex build. Now, this is a fairly large program with multiple sub programs, right? So, these often are very complicated to build. The first article inspection takes time, approvals take time. These are very sort of longer gestational programs, right?

So, we are in a journey of getting these approved and getting through deployment, right? So, this is a long journey. This is not one that cuts in, in weeks and months, right? It takes -- we've been working on this program for a fairly long period of time. So, we are on the journey. And hopefully, in FY27, we will start to reap the benefits of this program.

Karan: Okay. Sir, these FAIs have been completed or it is ongoing for certain products, can you tell me?

Shriram Vijayaraghavan: It's in progress. So, you will have some part numbers that are done, some part numbers that are progressing, some that we are yet to start. So, you've got a spectrum of this progress.

Kunhamed Bicha: So Karan, multiple products. It's not one product. So, I would say 50%, 60% is done and waiting for production approval. The other 40%, we are in the process of doing it, and then we'll get it. So, reasonable production will start sometime in '27.

Karan: Understood. Sir, what would be the major sector apart from clean energy, which will be contributing to our export revenue?

Kunhamed Bicha: A lot of it will be in aero and industrial, if I can answer that.

- Suresh V.R.:** The growth is broad-based, Karan. Even across India and in U.S., it is not just concentrated in one industry. It's across industrial, clean energy and communication.
- Karan:** Understood. One last question. What would be our client concentration? Like what would be the contribution of top 5, top 10 clients for the full year?
- Kunhamed Bicha:** So, I'll let Suresh give the exact numbers. But as large customers cut-in, things will start moving up and down for a short period and then it moves on. Suresh, you want to give the numbers?
- Suresh V.R.:** So, our top 10 customers, that's the one that we shared. It is 61% in FY26.
- Moderator:** Our next question comes from the line of Chirag from Keynote.
- Chirag:** Sir, my first question is related to the manufacturing plant of U.S. We have almost doubled the production from the U.S. now. Just wanted to understand how are we breaking even at EBITDA level for U.S.?
- Suresh V.R.:** Sure. So firstly, we have been discussing about increasing the revenues in U.S. manufacturing alongside our growth that we are seeing in the India manufacturing, so which is what we are seeing in the last 1-year. The losses have significantly narrowed down. If you look at it a couple of years ago, the quarterly losses were around INR14 crores.
- And if you look at Q2 of this fiscal year, it was INR9 crores. And Q3, it came down to INR7 crores. And in Q4, it has again further come down to INR5 crores. So, there is operating leverage that has started to play out.
- But having said that, we expect to see ramp-up of many of the new programs, which are at various stages, some in prototype, some in commercial, some in pending to be ramped up fully. With that scale-up expected to happen in FY27, we see this trend of losses coming down and moving towards breakeven in later part of FY27.
- Kunhamed Bicha:** But Chirag, one thing I realized is that a lot of the customers, we enjoy the margins and we enjoy the profitability in India because it came through this route, where it starts in the U.S. and then it moves to India. So, you can't just look at it from a plant-wise. There's a lot of business effectiveness for India, doing manufacturing in the U.S.
- Chirag:** Yes, I understand that. That's the earlier assumptions we had. It is shifting our manufacturing towards India more. And now it is like -- to gain more clients, we are now again starting to route it from U.S. and down the line, probably we would be given some cost benefits to the client and that would again shift to India. Is my understanding correct?
- Kunhamed Bicha:** Correct, Chirag. I think you got it right.
- Chirag:** The second question is more related to back-end journey and the future perspective what we have commented related to manufacturing.
- Kunhamed Bicha:** Chirag, you're breaking up. You're breaking up. If I may ask you to talk a little louder.

- Chirag:** Am I audible now?
- Kunhamed Bicha:** Now, you are fine.
- Chirag:** Right. Sir, my next question is more related to a back-end journey what Avalon had. So let's say, we started with manufacturing and EMS and we shifted to box build. We thought from the perspective that this is a higher integrated complex product and we can serve our client a bit better. It will help us to have better return ratios down the line and growth.
- And maybe, let's say, from a component to an assembly supply kind of a thought process. This is like a forward integration. Just wanted to understand -- you are remaining focused related to manufacturing box build only, even if you would have started manufacturing PCB at your end.
- Have you considered this fact that this is not going to be value accretive and you want to make sure that it remains an outsourced product for you and you don't want to get into the complication of manufacturing PCB because this anyhow helps us from the perspective that 90% of the PCB gets imported in India. And we are now from the perspective that we can control our value chain and make sure that we keep on growing at the pace we are without any hindrance related to raw material. So, just wanted to understand the thought process?
- Kunhamed Bicha:** Okay. So as a country -- this is a personal opinion, I believe that we need to have PCB manufacturing in India because as we scale up electronics, as we scale up being a global player. How competitive can be without subsidies? I don't know, okay.
- But as a country, we do need it. See, our spend on PCBs is, I would say, less than -- very, very small percentage in -- not even in the teens. So, it does not make sense for us to look at it as a vertical integration model. There are enough players coming in now where there will be enough competition to get the PCBs cheaper than what we can make. That is our thought process on this, Chirag.
- Chirag:** Sir, down the line, it would be correct for me to understand if the manufacturing of PCB starts happening in India itself, this can become a gross margin accretive for us because we would start sourcing it into India and even further margin profitability can take place for Avalon?
- Kunhamed Bicha:** So, see, like you said, it's not even in the teens for us, the PCB buy. It's much lower because of our vertical integration. I don't think it will be an effective change. It will be better, but it's not something which we will chase, okay? And Shriram, do you want to add something to this?
- Shriram Vijayaraghavan:** Yes. I think, Chirag, just to add to that, right, the way we are thinking about it is to grow in the more complex box builds, in which case, our sort of effort is going into more complex assemblies of different things, right? So, that's where the focus is not on getting into deeper down the value chain in terms of PCBs, but more up into more complex builds.
- Kunhamed Bicha:** And other thing, Chirag, PCB is a chemical business, okay? It's a very different type of business. And you need size and scale. And so it's something, which we don't want -- our focus is always

to do the complex box build. We want to do this \$100,000 boxes, okay, which will make a lot more business sense in our focus as well as delivery.

Suresh V.R.: And we believe there is enough growth in what we do across these verticals, across geographies. We're also looking at other export geographies as well. So when there is enough growth with a higher asset turn, and we have one of the industry-leading gross margins in what we do.

Chirag: Got it. Happy to hear that one direction focus is there. We are not disputing to start manufacturing something else where we don't have kind of an edge. Very happy to hear that. Just one last question related to semiconductor that you have mentioned to the earlier analysts. Almost -- as you said that 50%, 60% of the products have gone some acceptance by the client for now. There is some 40% is still in trials and work in processes.

So what can -- one -- and you're saying that from 2027 itself, we can start expecting some kind of a revenue to come into picture. Just a ballpark number as now -- from the perspective that it is now just 1-year ahead for us. Just a ballpark number how big this can be in terms of order book that we can expect even if the last program is divided into sub-programs

Kunhamed Bicha: Yes. So, things are going very well. I'm not saying no, but these are slow things which kind of take time to materialize. But saying that our goal is to, in the next 2 to 3 years, I would say, 3 years, make it a vertical for us, okay? So, you can understand the scope of it. It could be a smaller vertical and we hope it's a larger vertical, but it will become a separate vertical.

Chirag: Hello?

Kunhamed Bicha: Chirag, did you get that?

Chirag: Sir, I don't know the last part. When you said that it would become a vertical.

Kunhamed Bicha: It will become a vertical for us. So right now, it's in the industrial piece, and then we'll spin it off in the next 2 to 3 years as a separate vertical. So, our size of our verticals and we hope to have that whether it's a smaller or a larger vertical, we have to -- we will be there.

Chirag: Just to confirm one thing, whenever we say a new vertical, it is approximate 8% to 10% of revenue coming from that and then you divide it to another, that is correct?

Suresh V.R.: Chirag, without putting a number to that, okay, there is enough scope and scale to grow in this. We have just got into one customer right now, which means there is multiple customers there. And within each customer, we can get into multiple products. India just got into the semiconductor equipment manufacturing.

And even in the last budget, there was a mention of India Semiconductor Mission 2.0, which focus on semiconductor equipment's. Definitely, we also hope for greater things to come here, but we do not want to put a number to that at this stage.

Moderator: The next question comes from the line of Arpit Jain with Wallfort Financial services Limited.

- Arpit Jain:** Congratulations on the good numbers. Am I audible?
- Kunhamed Bicha:** Yes, Arpit, you are.
- Arpit Jain:** Yes. So, I came across the recent news that the conflict in the Middle East has disrupted the supplies of raw materials at PCBs and pushed up their prices. So, I just wanted to know since regarding the tightening of the availability of PCBs, how has that impacted us and our inventories? And how has the pricing impacted us too?
- Kunhamed Bicha:** Arpit, see, most of our pricing is a pass-through, okay, passed through to our customers. There has been some increases, but it will always be passed through. So, it's not something, which will affect. If you look at over a 5-year period, our gross margins have averaged between 33% and 35% or sometimes even higher. So, we always aspire to keep that. So even if some of this price increase, we pass it through to our customers. Did I answer your question, Arpit?
- Arpit Jain:** No. And regarding the inventory thing -- so regarding the shortening of the availability of PCBs, so, I mean, how did you hold those in our inventory? And what's our outlook on that?
- Kunhamed Bicha:** You want to answer that?
- Shriram Vijayaraghavan:** Yes. So I'll take that, Arpit. So, we manage this actively with the help of our customers. So, we work very closely with them as to what kind of inventory we should hold for their products, right? We are always -- we keep our eye out. So, where we feel it's getting tight, we will hold more inventory. And where we feel the lead times are good, right, we don't have to do so.
- So, this is actively managed across programs, across commodities, whether it's PCB, metals, wire harness, whatever it is, right? So, these are fluctuations that we manage day-to-day, Arpit. But at the moment, nothing that we see is critical. Obviously, there are things that are long lead times and things are moving around, but we're always actively managing them.
- Kunhamed Bicha:** But saying that, this changes on a daily basis, okay? So as of now, we don't see a material impact, but you never know whatever happens geopolitically.
- Arpit Jain:** Okay. So, my next question was, I see a growth in PAT year-on-year higher than the growth in EBITDA. So, correct me, if I'm wrong. So, I believe with depreciation and with the tax and with interest and all being stable across the year, so there is a component of other income that has increased substantially. So, I just wanted to know what does this other income comprise of?
- Suresh V.R.:** So see, major part of our business is in exports. So, with currency depreciation, there is a benefit on forex income as well, which is part of the other income. It won't be part of EBITDA, but it will be part of other income.
- Moderator:** Our next question comes from the line of Mehul Panjuani with 40 Cents.
- Mehul Panjuani:** All my questions have been answered. Thank you.
- Moderator:** Our last question for the day comes from the line of Achuth, who is an Active Investor.

- Achuth:** I have a question on order book. Like I've seen that the current order book is around INR2,000 plus crores. What is the timeline to execute this?
- Kunhamed Bicha:** So, Achuth, the order book is around INR3,441 crores. Out of that, INR2,196 crores is executable in 12 to 14 months and INR1,245 crores is executable between 14 months to 36 months. And we have got orders further than 3 years, which we don't count in the order book.
- Achuth:** Okay. And my second question is regarding EBITDA margin. I remember that in previous calls somewhere we have mentioned that the operating margins will increase from Q4 of FY26. So, I just wanted to understand if operating margins are going to increase going forward.
- Suresh V.R.:** So, I can talk about the past. In Q4 FY26, like you also rightly highlighted, the EBITDA percentage is 11.8%. And if you look at our India manufacturing, which is approximately 79%, that has generated 16.7% EBITDA. So, you can see a consistent increase in EBITDA percentage over the last few quarters now. With increase in sales expected in FY27, we believe there is a further scope of operating leverage in both India plant as well as U.S. plant. So, there is a little bit more scope as well.
- Achuth:** Okay. Can you give any long-term guidance on EBITDA margins? I mean, because if you see, other EMS players are able to make around 16%, so I think we have still room just to make much more margins from EBITDA?
- Suresh V.R.:** We generally do not provide guidance on the EBITDA margin percentage, Achuth. This is what I can say. There will be operating leverage and scope for us to play out.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for the day. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.
- Kunhamed Bicha:** FY26 was a great year for Avalon, with robust revenue growth and solid execution. We remain focused on scaling new programs, enhancing capabilities and investing ahead of our growth. Our entry into semiconductor equipment space marks a key step as we expand into more advanced high-potential technologies and 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 very much.
- Suresh V.R.:** Thank you.
- Moderator:** Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.