kotak Securities

Dated: 7 Nov 2025

Avalon Technologies (Avalon) - SELL

Q2FY26 Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs. 1,062	**Rs. 740**

Rationale:

- Avalon's PAT came in 16% ahead of expectations, driven by stronger-than-expected execution and higher other income.
- Increased FY26 revenue guidance from 23-25% to 28-30% on the back of strong performance in Q2FY26.
- High tariff for an elongated period could potentially impact the business.
- We revise our FY26-28E EPS estimates by (-)2.5% to 5.3%.
- We retain SELL with a revised Fair Value of Rs740 (Rs670 earlier).

Positives:

- Q2FY26 revenue, at Rs382.5cr (+39% yoy), was 12% ahead of expectations.
- Performance was strong across segments, led by mobility, clean energy, communication and industrial.
- Onboarded three large US customers, which will further support long-term growth.
- Topline guidance seems conservative, as it implies only 17% growth in H2FY26.

Negatives:

- Strong revenue growth was partly offset by weaker gross margins (34.3% Vs 36% ours estimates).
- EBITDA margins coming in at 10.1%, which is lower versus our expectation of 10.5.
- Net working capital worsened to 131 days in Q2FY26 from 124 days in Q1FY26.
- Order inflows saw 52% increase yoy, resulting in order backlog of Rs1860cr (+25% yoy).

(EPS: Earnings per share, EBITDA: Earnings before Interest, tax, Depreciation and Amortization, NWC: Net working capital)

Holding Period: 12 months

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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