Aeroflex Industries Limited

Rating: BUY

Target Price: Rs.183 (+40%)

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We are Initiating coverage on Aeroflex Industries with a "**BUY**" recommendation and target price of Rs.183 based on 27x FY26E P/E Multiple. Our recommendation is based on: 1) Patents and license approval by relevant authorities for suppling its products to the relevant regions, 2) High barrier to entry, given the required level of precision in execution, 3) Capital Expansion. Despite of red sea challenges and higher contribution of revenue from exports, better margins from its assembly business line, phased capital expenditure and reduction of imports of raw material from China, makes us believe in the value that can be generated from Aeroflex industries. We believe that addition of metal bellows, and increased focus on revenue from assemblies will help improve EBITDA Margins from 20.06% in FY23 to 23.09% by FY26E. We expect Revenue growth of 30% in FY26E and EBITDA growth of 38% driven by higher volumes and lower costs.

Capital Expansion to drive growth in Profitability

Investment Rationale

We like Aeroflex Industries for the following reasons:

Government and other Statutory Approvals:
The business requires various approvals, licenses, consent, registrations and permits issued by relevant regulatory authorities. Customers in various parts of the world maintain a checklist of approvals and licenses needed before procuring a particular company's products. The list varies on the basis of the sector the product falls under and the country where it is being manufactured. Aeroflex has taken the necessary approvals and licenses from the relevant authorities, this has enabled the company to export its products.

High Barrier to Entry:
Given the critical nature of the applications, the business solutions provided by Aeroflex Industries require a high level of precision and a perfect level of execution. Every product must meet global quality standards with stringent design, engineering and use specifications. In addition to this, it takes considerable time to get all the mandatory licenses and approvals. These factors together act as formidable entry barriers for any new player. Aeroflex industries is an established player; hence, we believe, that the company would face lower threats from its competitions.

Key Market Data	
Bloomberg Code	**AEROFLEX:IN**
Target price (₹)	**183**
Date	01/04/2024
CMP (₹)	131
Upside	40%
Rating	**Buy**
Mkt cap (₹ Mn)	15718
52 Week L / H (₹)	115/196

Price Performance	
1 month	-16.95%
3 months	-21.03%

Shareholding Pattern (31st Dec 2023)	
Promoters	66.99%
DIIs	0.4%
FIIs	5.9%
Public	26.71%

Source: NSE

Analyst

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Capital Expansion:

Aeroflex is the single largest Manufacturer of Metallic Flexible Flow Solutions, with an installed capacity of 12.5 Million meters per year. The Manufacturing facility is spread across an area of 3,59,528 square feet and is equipped with 34 mechanical corrugation machines, 20 hydraulic corrugation machines, 4 interlocking machines and 28 braiding machines. The current manufacturing facility operates at 95% capacity. The company had begun its plan of capacity expansion in FY 23, and is on track to complete the remaining portion of Phase 1 capacity expansion by the end of March FY24. This shall increase its total capacity to 13.5 Million meters. Additionally, the company has procured land measuring 79,061 square feet adjacent to its existing factory location. This extra land shall facilitate capacity expansion, which shall help further increase the capacity to 16.5 Million meters by the end of FY25.

Financials

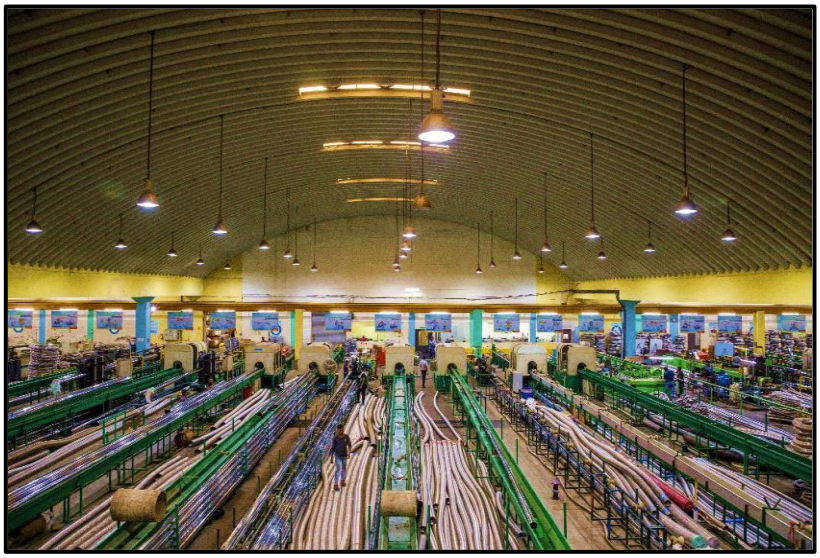
Particulars (₹ Mn)	FY22	FY23A	FY24E	FY25E	FY26E	CAGR % (FY23-26E)
Revenue	2,410	2,695	3,240	4,203	5,455	27.09
EBITDA	469	541	662	913	1,260	17.15
EBITDA Margins	19.48%	20.06%	20.44%	21.72%	23.09%	38.44
PAT	276	302	420	616	863	15.42
PAT Margins	11.44%	15.30%	12.96%	14.67%	15.82%	10.48
EPS	12.06	2.64	3.21	4.77	6.67	-
PE (x)			38.94	26.23	18.74	-

Source: Company, Asit C. Mehta Institutional Research

Company Brief

Aeroflex Industries was incorporated by the Macquire Group. In 2018, the company was acquired by SAT Industries to enable optimum capital utilisation and generate efficiencies. As on date, SAT Industries has a promoter shareholding of 67% in Aeroflex Industries. The company is engaged in the business of manufacturing and supplying of environment-friendly metallic flexible flow solution products. These products are used for controlled flow of all substances, including air, liquid and solid. It operates from its plant located in Taloja, Navi Mumbai, India.

A full range of metallic flexible hoses and hose assemblies are manufactured in authentic stainless steel with grades AISI 304, 321, 316 & 316L, confirming to the highest international quality standards. Its products are made using stainless steel corrugation that confirm to BS 6501 part-1 and are manufactured as per type A, B and C flexibility. Aeroflex Industries generates around 85% of its revenue from exports to more than 80 countries in Asia, Europe, America, and Africa, with the remaining from domestic markets.



Parent Company Brief

SAT Industries was incorporated on 24th November, 1984, and was listed on BSE in 1985. It has its presence in more than 100 countries, with offices in Mumbai, Dubai and London. SAT Industries provides a wide range of business solutions and operates in sectors, such as finance, manufacturing, leasing, import and export, domestic trade and investments.
The company invests and provides its support to business ventures, thereby helping these ventures expand, grow and generate better efficiencies in operations. It aims at leveraging its market position and help its affiliate businesses realise its full potential and take full advantage of the countless opportunities that lie ahead. As on FY2023, SAT industries invested in more than 125 startups across 30 sectors.

In addition to Aeroflex Industries, SAT Industries has a majority shareholding in 3 companies:

1. **SAH Polymers Limited**
   Adding to the family of SAT industries' esteemed subsidiaries is SAH Polymers Limited. With a rich history spanning over 35 years, SAH Polymers has etched its name in the polymer industry as a reliable and innovative player. Employment of cutting-edge technology and the presence of seasoned professionals enable the company to offer an exquisite range of products, including PP woven bags, box bags, BOPP laminated bags and most prominently Flexible Intermediate Bulk Containers (FIBCs). SAH Polymers' subsidiary Fibcorp Polyweave Private Limited adds a feather to SAT Industries' cap and expands its reach in the industry. Driven by its focus on product quality and innovation, SAH Polymers is committed to customer satisfaction, thus earning its place as a critical piece in SAT Industries' formula of success.

2. **Italica Global FZC, UAE**
   Italica Global FZC, a distinguished entity in the UAE, proudly stands as a wholly-owned foreign subsidiary of SAT Industries involved in general trading. As an integral part of SAT Industries, Italica Global adds another dimension to the diverse portfolio of the company, enhancing its global reach and contributing to its overall success.

3. **Aeroflex Finance Private Limited**
   As a wholly-owned subsidiary of SAT Industries, Aeroflex Finance is a Type-II non-deposit taking NBFC registered with the RBI. It specialises in providing innovative financial solutions. As a trusted partner to MSMEs, the company offers tailored loans and advances for working capital and expansion-related requirements, thus helping businesses achieve their full potential. It also caters to individual
   consumers with loans for education, skill development and other assistance. It extends a helping hand to corporations and firms in the form of loans that best suit their unique requirements. With a commitment to financial excellence, this dynamic subsidiary is well-aligned with SAT Industries' value of empowering people to drive growth.

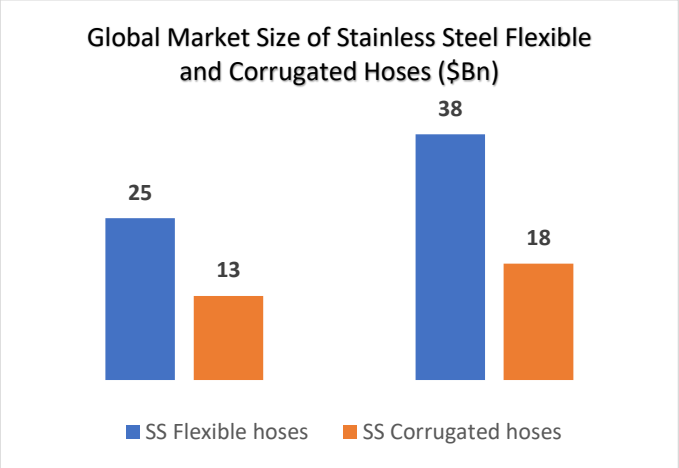
Name of Entity	Industry	% Shareholding (Dec,2023)
Aeroflex Industries	Stainless Steel Flow Solutions	67%
SAH Polymers Limited	Flexible Bulk Packaging	55%
Italica Global FZC, UAE	Trading	100%
Aeroflex Finance Private Limited	Lending & Financing	100%

Source: Company, Asit C. Mehta Institutional Research

Industry

The global market for stainless steel flexible hoses was estimated to be valued at approximately $25 billion in 2020; the size of SS corrugated hoses was estimated at $12.5 billion. The industry is expected to grow to the level of $38 billion and $18 billion by 2027, registering a CAGR of 7.5% and 6.3%.

Globally, rapid urbanisation, accelerated pace of infrastructure developments and brisk real estate construction have led to increase in demand for HVAC systems. This translated into a promising outlook for stainless steel flexible hoses. Moreover, large scale industrialisation and modernisation in agriculture and key manufacturing sectors are fueling demand for stainless steel industrial corrugated hoses.



Source: DRHP

Domestically, the demand for S.S flexible flow solutions was largely driven by the industrial sector. The user segment comprises plants manufacturing chemicals, petrochemicals, pharmaceuticals food & beverage, steel and pulp & paper, among other. Its application in residential and commercial segments is majorly driven by the heating, ventilation and air-conditioning (HVAC) Systems.

Supply Boost Owing to Government Schemes

The GOI has introduced an array of schemes to bolster domestic manufacturing capacities. There are two major policies which were introduced as a stimulus package to tide over Covid-19-induced economic disruption, namely:

1. **Production-linked Incentives (PLI) Scheme:**
   Post-pandemic, various production-linked incentive (PLI) schemes have resuscitated the manufacturing sector. With a net spend of over ₹ 2 trillion, the PLI scheme is helping build critical value chains and industrial clusters in India, besides expanding the country's export basket. Overall, the 14 PLI schemes have brought in a new regulatory framework, which can be aligned to address industrial and manufacturing technology deficiencies and improve output. The scheme extends to sectors, such as chemistry cell battery, electronic products, automobiles and auto components, pharma, telecom and networking products, textile, food products, white goods and specialty steel. Aeroflex Industries stands to benefit from this scheme as it continues to export its products globally, develop core competencies, innovate technology and create employment opportunities.

2. **National Manufacturing Policy:**
   As the world's fastest-growing economy for the past two years, India had experienced several developments in 2023 that boost the confidence of foreign investors. The government of India aims to increase the share of manufacturing sector in the national GDP, from the existing level of 17% to 25% by 2026.
   The National Manufacturing Policy and 'Make in India' initiatives implemented to achieve this objective would benefit process control equipment manufacturing. Additionally, the move towards 'Industry 4.0,' which focuses on encouraging companies to adopt the best-in-class manufacturing practices, would have a positive impact on process control equipment segment. 'Industry 4.0,' which is intended to reshape the manufacturing segment by focusing on automation as well as improving efficiency, could create a higher demand for process control equipment and systems.

Industry Outlook

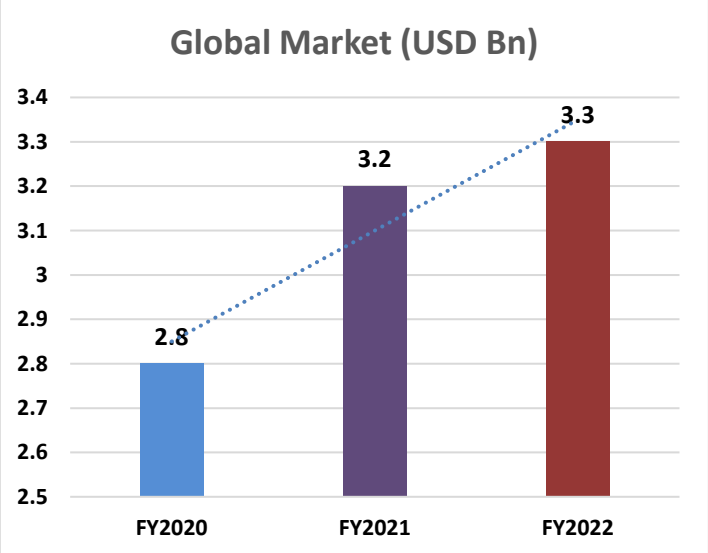
Global market for S.S flexible hose has grown at a CAGR of 8.2% to value at approximately $3.3 Billion in 2022. Since 2018, approximately 1,840 projects (Brownfield and Greenfield) have been completed in the manufacturing industry, with flexible flow solutions made with stainless steel corrugation application being ubiquitous. This is considered to have generated a robust demand for the product.

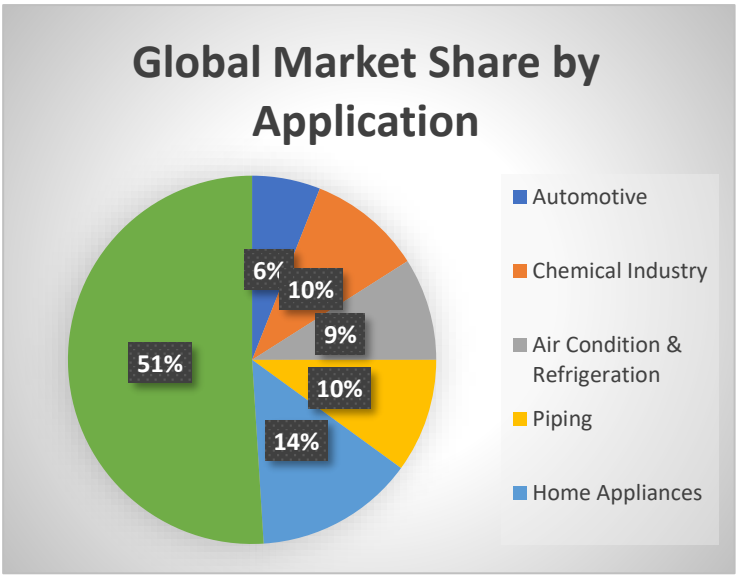
Globally, the demand for S.S hoses, assemblies and fittings and S.S composite hoses is expected to remain intact in the long run, in spite of supply disruption due to the Red sea crisis faced in the short run. Rise in infrastructure spend and focused government initiative to curb carbon emission and push clean energy is expected to drive the growth of flexible flow solutions. This will lead to demand for stainless steel hoses, assemblies and corrugation for many key end-user industries, such as electric automobile, renewable water heating application and other energy-efficient electrical appliances.

Demand for Flexible Flow Solutions made with Stainless Steel Corrugation

Traditional Demand Segments	Emerging Demand Segments
Manufacturing	Renewables (Solar)
Automotive	Aerospace and Defence
Oil & Gas (Exploration, Refining)	Semiconductor manufacturing
HVAC	Robotics: Industrial robots, drones

Source: Company, Asit C. Mehta Institutional Research





Source: Company, Asit C. Mehta Institutional Research

Product Profile

As per Q2FY24 earnings call, the company has more than 1,700 Product SKUs (Stock-keeping Units) in their product portfolio, with a list that includes Corrugated Stainless Steel Hose, Double Interlock Flexible Metal Hoses, Composite Hose, PTFE Hose, Stainless Steel Hose Assemblies, Expansion Bellows and Compensators and Related End fittings.

The product portfolio of the company can be divided into the following three major segments:

I. Stainless Flexible Hoses with & without Braiding:

In Q2FY24, stainless steel flexible hoses accounted for 63.8% of the company's revenue. These are available with or without braiding coils of 25–50 meters.
The diameter of each hose ranges from ¼ inches to 16 inches.

Irrespective of their type, corrugations are made using any of the two processes:
1) Hydraulic 2) Mechanical.

S.S flexible hoses are made from S.S sheet which are rolled and welded at the seam, resulting in the formation of a thin-walled and gas-tight tube. Corrugations are added to the outer surface of the hose to impart flexibility.

There are two types of corrugations and the orientation of the corrugation determines how the flexible hoses are segmented. The types are as stated below:

a) Annular: Each corrugation is independent and parallel to each other.

b) Helical: It is one continuous corrugation that spirals around the flexible hose.

To achieve the desired result, the raw material used in manufacturing must be of the desired quality. The required raw materials are: 1) stainless steel wires, 2) stainless steel sheets 3) precision coils. Depending on the grade required, precise coils and stainless steel sheets are either purchased from the domestic market or imported from China. The largest supplier for Aeroflex Industries in the domestic market is **Jindal Steel**. In terms of import, the largest contributor is **Amperex Technology Limited (ATL).**

Stainless steel hoses have unique properties as compared to other materials, such as Plastic and Polytetrafluoroethylene (PTFE). Stainless steel hoses are designed to withstand high pressures, extreme temperatures and corrosive environments.

II. Assemblies & Fittings:

In Q3FY24, assemblies and fittings accounted for 27.6% of the company's revenue. A hose assembly comprises the hose and the end fittings and are determined by the application in which the hose assembly is going to be placed. Fittings affixed to both ends of flexible hoses serve as connectors, ensuring that these hoses are seamlessly linked for their designated applications.

Various types of fittings can be securely fastened to the hose ends through welding or clamping methods. This flexibility in fittings widens the scope of applications where flexible hoses made with stainless steel corrugation can be used. Once these fittings are affixed to the hose, the combination is referred to as an assembly.

Source: Company, Product Portfolio

III. Others:

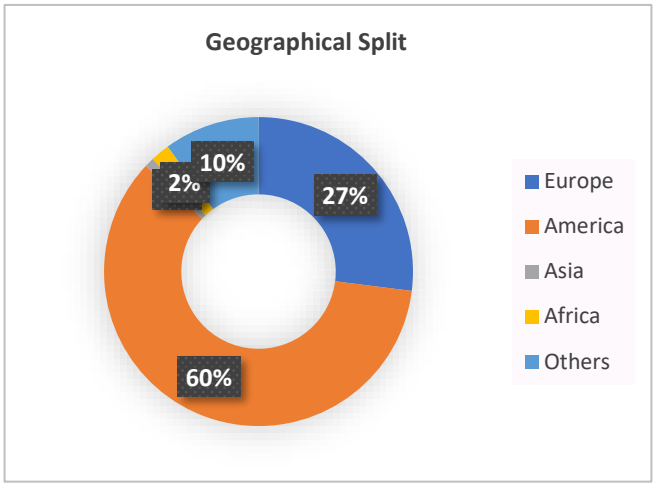
In Q3FY24, other products accounted for 8.60% of the company's revenue. They are classified into two types as stated below:

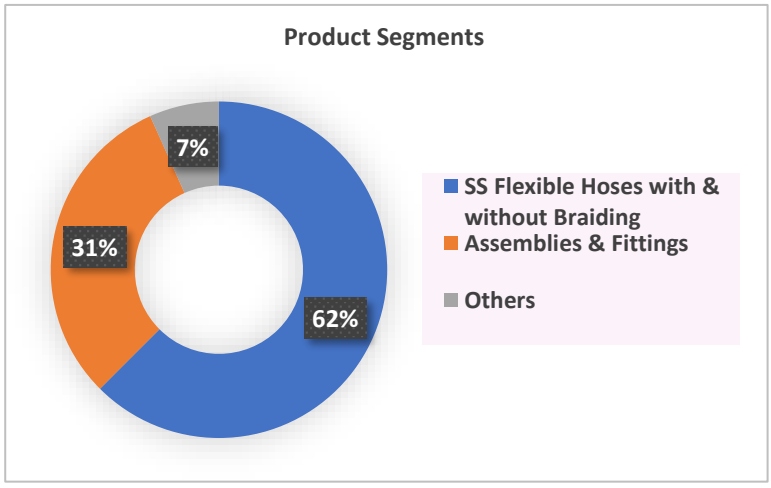
1. Stainless Steel Braiding: Un-braided corrugated hoses tend to elongate when pressurised over a certain level. To restrain this, an external layer is provided on the hose. Braid is the outer cover made of wire of stainless steel or similar alloy which is wound tightly over the corrugated flexible flow solutions. The metallic hoses are braided to give strength when the hose is pressurised and to provide a solid protective cover during use. Typical materials, such as 316L and 321 stainless steel can withstand extreme variations in temperature, from cryogenic up to 1500°F (815°C).

   Braid applied can be either single braid or multiple braids, while braided is used on rage-diameter hose. Multiple braid layers can increase working pressure as well as with corrugation shape, profile, wall thickness and material type. With differing engineering techniques involved and excellent burst strength-to-wall thickness ratio, these hoses are relatively lightweight as compared to equivalent non-metallic hose alternatives in the market.

Source: Company, Product Portfolio

2. Stainless Steel Interlock Hoses: Stainless steel interlock hoses are helically coiled metallic strip that is mechanically locked with the adjacent edges folded together to form interlocked convolutions (two profiled lock sections). They are used in medium pressure applications (15–20 PSI) and can also be used as an outer jacket for insulated pipelines. To minimise leakage and to make the hose pressure-tight, interlock flexible metal hose can be manufactured with various packing materials (fabrics and elastomer), which may be inserted along the entire length of the hose offering a protective/conduit casing.





Source: Company, Asit C. Mehta Institutional Research

Stainless Steel: The right Choice of Material

Flexible flow solutions and hoses can be manufactured using different materials, including rubber, PTFE, polymer and metal. Each material has its advantages; however, hoses and assembles made with stainless steel corrugation have been gaining traction owing to their superior attributes. Stainless steel offers numerous advantages as opposed to other traditional material such as rubber/PTFE/polymer and other material hose.

- Temperature Resistance: Stainless steel hoses have a working temperate ranging from: -196 °C degrees to +982 °C degrees, making them highly durable and suitable for extreme conditions.

- Chemical Compatibility: Stainless steel has the ability to handle a wide range of chemicals without any corrosion and without contaminating the media that is transferred.

- Low Probability of Catastrophic Failure: In case of defects, metal hoses typically develop small holes or cracks that limit leakages. On the other hand, rubber/PTFE hoses develop large cracks in case of defects, leading to a catastrophic failure. Considering the criticality of application, a lower catastrophic rate makes Stainless Steel the ideal choice of material.

- Full Vacuum Property: Stainless steel flexible hoses offer the best protection to maintain full vacuum, thereby making it ideal for scenarios that require full vacuum. The ability to maintain the required level of vacuum is what makes Stainless steel the right choice.

- Flexibility in Fitting: Ability to use virtually any type of fitting provides stainless steel corrugated hoses the flexibility to be deployed in a wide range of applications. Un-braided as well as braided Stainless steel hoses are mobile in nature, which allows the media to flow from the right source at the required pressure.

- Environment-friendly: Traditional material such as rubber/PTFE are non-biodegradable as opposed to stainless steel. Stainless steel, owing to its unique properties, tends to last longer than rubber/PTTE and other material. From our recent plant visit, we concluded that the firm has minimal-to-zero wastage of stainless steel.

TABLE - I TECHNICAL DATA

MINIMUM BEND RADIUS		WITHOUT BRAID		SINGLE BRAID		DOUBLE BRAID	
STATIC mm	FLEXING mm	MAX. working pressure kg/cm²	TEST pressure kg/cm²	MAX. working Pressure kg/cm²	TEST pressure kg/cm²	MAX. working kg/cm²	TEST pressure kg/cm²
25	100	4	6	100	150	160	240
40	150	4	6	90	135	144	216
50	200	3	4.5	80	120	128	192
50	200	3	4.5	70	105	112	168
70	200	2	3	64	96	102	153
90	200	2	3	50	75	80	120
110	250	1.5	2.3	40	60	64	96
130	250	1.5	2.3	30	45	48	72
175	350	1.0	1.5	28	42	44	66
200	410	1.0	1.5	24	36	38	57
205	450	1.0	1.5	18	27	28	42
230	560	0.8	1.2	16	24	26	39
280	660	0.6	0.9	12	18	20	30
320	815	0.6	0.9	10	15	16	24
435	1015	0.5	0.75	8	12	12	18

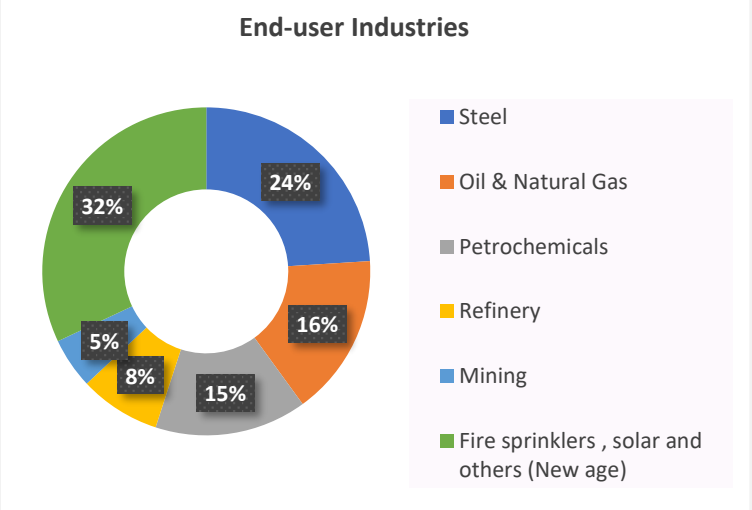
Source: Company, Annual Report

Industry Application

The transfer of media, be it liquid, gas or semi-solids, is an integral part of any industrial process. Its application extends beyond the industrial segments, with potential uses in residential and commercial segments. Flexible flow solutions automatically connects the origin and end points of the media transferred.

Flexible flow solutions are used across a wide number of industries. Some of its applications are as follows:

1. Fire Sprinklers: High-pressure hoses are used in fire sprinkling systems to carry water or other fire retardants to a place of accidental/incidental fire and extinguish it. Outdoors, it attaches either to a fire engine, fire hydrant or to a portable fire pump. Indoors, high-pressure hoses are permanently attached to a building's standpipe or its plumbing system.
2. Semiconductors: The market for semiconductor hoses and assemblies is unique to others. A large number of SS hoses and assemblies of small diameters is used in discrete applications. Ultrapure water is used to wash chips and to deliver various chemicals for chip treatment; fabrication requires hundreds of tools; various gases and liquids are used to treat each chip.
3. Petrochemicals and Oil Refineries. In oil refineries, flexible flow solutions made with SS corrugation are used to transfer hydrocarbons, steam and by-products & additives associated with the refining process. Some of the application areas include hydrocarbon drain hoses, steam lines, lube oil & grease plant process lines, gas burner connections and process line connections.
4. Electric Mobility: Stainless steel flexible flow solutions in electric vehicles (EVs) are used for thermal management. EVs require different types of hoses and fluid transfer assemblies. EVs are powered using larger batteries that generate a lot of heat. Complex flexible flow solutions are wrapped around the battery and its compartment for thermal management.
5. Aerospace and Defence: When a high degree of flexibility is needed, flexible flow solutions are employed in a complex range of hydraulic systems which control the movement of the brake system, flight control surfaces, fuel, lubrication, compressed gases, water and coolant throughout the aircraft systems. They are also used as connectors in metal tubing systems.
6. Natural Gas: Liquefied Natural Gas (LNG) is transferred at extremely low temperature. Flexible flow solutions with their temperature resistance properties are used to efficiently transfer LNG.
7. Steel and Metal: Flexible flow solutions find their application in steel and metal plants. They are used in blast furnaces , coke over and coke by-product transfer, boilers and generation units, high-temperature lubricating lines, cooling water hoses and vacuum degassers.
8. Heating, Ventilation and Air-conditioning (HVAC): SS flexible flow solutions are able to avoid thermal expansion caused by temperature fluctuation as well as avoid vibrations in HVAC systems. It is increasingly replacing rigid piping systems. Additionally, its ease of installing is tilting the preference of consumers towards metallic hoses.
9. Chemicals, Food and Pharmaceuticals: Flexible flow solutions are used for transfer of chemicals in chemical processing and the loading, unloading of liquid chemicals (e.g., tank trucks, rail tankers and IBC containers). Stainless steel hoses are used to transfer food and pharmaceutical products internally in the plant for various processes.



Source: Company, Asit C. Mehta Institutional Research

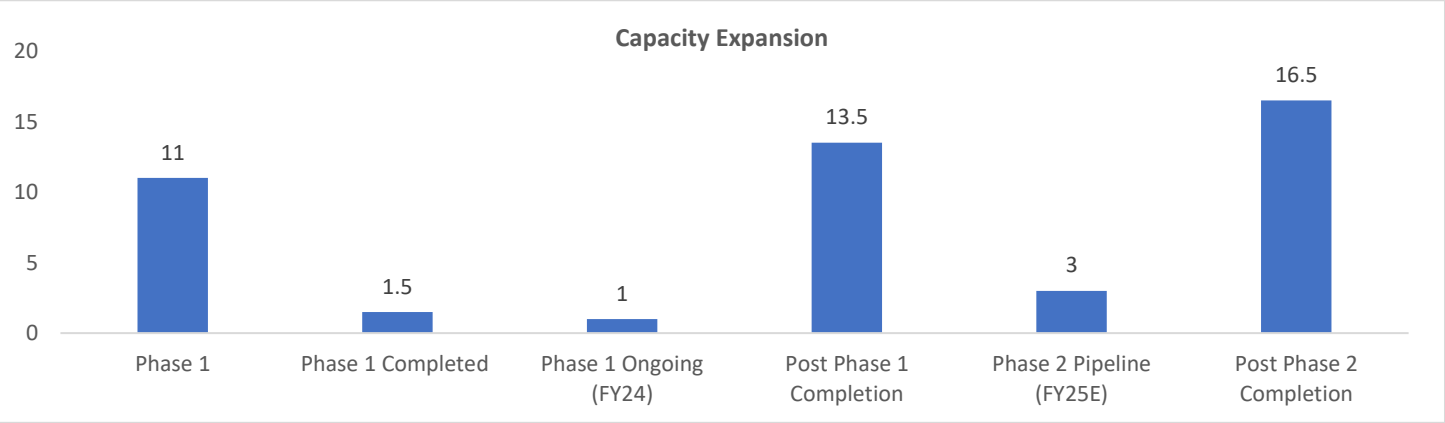
Capacity Expansion

Aeroflex Industries has implemented capital expansion in a phased manner. The expansion will take place in the following phases:

1) Phase 1: In September 2023, the company completed Phase 1 of its capacity expansion project. It has added 1.5 Million meters to its existing capacity of 11.5 Million meters. The production capacity now stands at 12.5 Million meters.
2) Phase 1 (Ongoing): The remaining portion of the Phase 1 capacity expansion, which amounts to 1 Million meters, is projected to be completed by the end of FY24, increasing the total capacity to 13.5 Million meters.
3) Phase 2: Aeroflex Industries has procured a land parcel measuring 79,061 square feet adjacent to its existing factory location in Taloja, Navi Mumbai. This additional swath will enable a capacity expansion of 3 Million meters. It aims to complete this phase of expansion by the end of FY25.

The company looks to gain synergies from this capital expansion plan by the end of FY25. After the completion of the Phase 2 expansion plan, the capacity of the firm will stand at 16.5 Million meters, up from the existing capacity of 12.5 Million meters (from Q3 FY24).

In addition to the planned capital expenditure, Aeroflex Industries intends to gradually implement automated and robotic assembly lines as part of its future plans. Along with this, it is looking at upgrading its existing machineries and replace some with machines of higher capabilities.



Source: Company, Asit C. Mehta Institutional Research

1. Composite Hoses:
   - Currently, 3 Operational lines for manufacturing product sizes of 14 inches
   - Plan to add 3 more lines for sizes up to 20 inches by June 2024.

2. Welding & Assembly:
   - Presently running 21 stations, and adding 8 new stations by March 2024.
   - The company intends to gradually implement automated and robotic assembly lines in the future.

3. Metal Bellows
   - Metal Bellows and Expansion Joint to be implemented in 2 phases: Total expected capacity of 300,000 pieces per year.
   - In the first phase of expansion, the company is setting up a manufacturing capacity of 120,000 units per year, which is expected to be completed in December, 2024.
   - Targeting a range of products with diameters ranging from 25mm to 600mm.
   - Currently in the process of leasing an 80,540 sq. ft. building for the plant setup.

Business Strategy

Aeroflex Industries aims to achieve a dominant position within the industry. To reach its long term goal, the company shall focus on the following business strategies:

Increase product portfolio:

Aeroflex Industries aims to diversify its offering by foraying into flexible flow solutions made with other high-end materials. These materials include bronze, polytetrafluoroethylene, hastealloy, inconel and monel. Some of the properties of these materials are: resistance to external elements, maintaining the quality of media transferred, resistance to abrasion and corrosion, low probability of catastrophic failure, resistance to temperature, maintenance of a full vacuum and compatibility with chemicals.

Going forward, Aeroflex Industries expects growth in end-use industries, such as oil and gas, refineries, chemicals and petrochemicals, paper and pulp, steel, power, semiconductors, electric vehicles, robotics and automation, aerospace and aviation, hydrogen fuel, solar and HVAC. The growth in these industries will thereby fuel demand for metallic flexible flow solutions. The company believes that the expansion of its solutions portfolio through advanced and complex assemblies and multi-material offering will lead to a further increase in operational margin.

Scale up in-house design and R&D efforts:

Aeroflex Industries has an in-house design, research and development team which consists of 11 members, with more than 55 products across various R&D stages. The team focuses on research for existing as well as new high-end materials and optimization of manufacturing processes.

The net spend on design, research and development stood at Rs 1.95 crores for the period ended January, 2023 vs Rs 1.652 crores for FY2022, Rs 1.290 crores for FY2021 and Rs 1.136 crores for FY2021. The net expenditure stood at 0.89%, 0.69%, 0.89% and 0.79 % of total revenue for respective years. The company plans to add resources as its looks to further scale up its efforts towards design and R&D.

The goal of the company is to have a technically qualified team with abilities to handle complex research, development and innovations on other high-end materials, new product applications and complex product design in-house for a variety of applications across industrial segments. Aeroflex Industries believes that a well-equipped and dedicated R&D team would add value to its offering by providing upfront design services. This would, in turn, result in a higher level of customer servicing and optimisation of operating margins as it looks to tap a larger value chain of the metallic flexible flow solutions.

Increased focus on global markets and enhance international presence:

Exports contributed to 83.29% in FY2023, 87.78% in FY2022, 84.38% in FY2021 and 78.87% in FY2020 to the firm's revenue. The US-China trade war and the Covid-19 pandemic has prompted the need for companies to diversify supply chains outside of China. This has given birth to the 'China +1' strategy, in which multinational firms are moving to countries other than China. Aeroflex Industries aims at maximising this opportunity and contribute to strengthening India's place as a manufacturing hub and have a bigger role in the global value chain.

Aeroflex Industries intends to expand its geographical presence in countries, such as USA, Europe, Far East and Middle-East and North Africa (MENA) region. Setting up its own strategic delivery in locations in these regions, diversifying its portfolio and expanding its share of supplied products will ensure integrated solutions under one roof. It will also help in timely delivery to customers at their desired locations in a cost-efficient manner.

Expand its domestic business:

Domestic markets contributed 16.17% in FY2023, 12.22% in FY2022, 15.62% in FY2021 and 21.13% in FY2020 to the firm's revenue. With the aim of achieving the goal of 'Atmanirbhar Bharat,' the Government of India announced the Production-Linked Incentive (PLI) Scheme for various industries. The schemes extends to: Advanced chemistry cell batteries, electronic products, automobiles and auto components, pharma, telecom and networking products, textiles, food products, white goods and specialty steel.

As large-scale manufacturing activity enhances, pursuant to various incentive schemes and initiatives of the government, the demand for industrial products including flexible flow solutions is also slated to increase. Given the emerging opportunities offered by the favorable trends and initiatives, Aeroflex Industries aims to enhance its domestic presence and build market share.

Focus on Digitization and Industry 4.0:

In order to improve its operational efficiencies, the company shall focus on digitalisation and Industry 4.0. Offering quality products at the desired time has helped Aeroflex Industries maintain its customer relationships. The business operations of the company is largely driven by coordination within and amongst teams, shift planning, production scheduling, warehousing and logistics planning, maintenance of accurate data related to production, quality control, R&D, inventories and proper book-keeping. The company has put in significant efforts to digitize its operations through implementation of various initiatives.

Key Products Developed recently/Under Research and Development	
Fire Sprinklers Solution for EV buses	Development is under way for electric bus rooftops designed to provide protection against fires
Bronze Metal Flexible Flow Solutions	Bronze hoses for HVAC (Heat Ventilation and Air-conditioning)
A-704 Hoses	Higher thickness hose and longer lengths without joint (mechanical formed)
Inconel 625 and 825 Hoses and Assemblies	Hoses made of Inconel 625 & Inconel 825 for higher temperature application – feed gas hose for blast furnace
Monel Hoses	Hoses for highly corrosive environment, shipping and submarine
Aviation Assemblies	Engine cooling applications
Semiconductor Assemblies	Transfer of various gases and energies with ultimate precision
Cryogenic Application Assemblies	Hose assemblies with copper / brass fittings are used for oxygen , argon, nitrogen loading & unloading
Fire Sprinkler Hose Spiral Hose	Hose assemblies with sprinkler nozzle & end fittings for fire hydrant system
Solar Hoses with Fitting Kit	Hose assemblies for solar application, used for water heating system

Moving forward, Aeroflex Industries intends to automate various processes which will help improve its energy usage efficiency, eliminate waste, improve productivity and manpower optimisation and further improve its water discharge practices. Implementation of tools and techniques such as machine learning systems, the Internet of Things (IoT) and Industry 4.0 will help the firm synergize its operational and business performance.

Q3FY24 – Investor Conference Call

- Revenue was pegged at ₹ 74.32 Cr, which is a year-on-year growth of 12.78%
- EBITDA stood at ₹15.01 Cr., i.e., growth of 63.32% year on year. However, EBITDA margins declined to 20.10% vs 21.35% in Q2FY24
- Profit before taxes was reported at ₹13.35 Cr, with a year-on-year growth of 94.93%
- Net profit increased substantially in Q3FY24 to ₹9.04 Crs, which is a year-on-year increase of 75.56%
- The capacity utilisation for Q3FY24 stood at 95%
  Segmental Revenue:
  1. SS Hoses = 62.5%
  2. Assemblies = 30.8%
  3. Composite = 6.7%

Metal Bellows

- Expansion to be completed in two phases: Total expected capacity of 300,000 pieces annually
- In the first phase of expansion, the company is setting up a manufacturing capacity of 120,000 units per year. This is expected to be completed in December this year and generate revenue of 50crs annually
- Capital expansion of Metal Bellows will incur a cost of 40 crores. Working capital will also induce cost of another 35-40 crores. This will be funded entirely by proceeds from IPO

Supply Chain challenges

- Red Sea challenges: Aeroflex is confident that if the Red Sea did not pose challenges, exports would have been higher
- These challenges were faced for the last 10 days in Q3FY24 (December 2023). Due to this, customers had deferred their shipment. However, these challenges are wearing off and the company expects normalcy to be restored by the beginning of February, 2024.

Stainless Steel Prices

- Stainless Steel prices = Reduction of 25%, however the company passes on only 12–15% to the customers. This has enabled better margins
- Reduced Dependence of Raw Material from China. Import of raw material is now below 50%. Precision steel and stainless steel is now purchased from local manufacturers. Purchase from the domestic market has helped in reducing working capital cycle.

Financials

Income Statement

Particulars (₹ Mn)	FY22	FY23	FY24E	FY25E	FY26E	CAGR % (FY24E-26E)
Net Revenues	2410	2695	3240	4203	5455	27.09
EBITDA	469	541	662	913	1260	17.15
EBITDA Margin	19.48%	20.06%	20.44%	21.72%	23.09%	38.4
Other Income	2	0	34	36	37	2.26
Depreciation	42	52	49	60	79	5.65
Interest	63	46	23	-	-	
Profit before Tax	369	412	560	822	1150	17.08
Tax		111	140	206	288	10.39
Net Profit	276	302	420	616	863	15.42
EPS (₹ per share)	12.06	2.64	3.21	4.77	6.67	

Source: Asit C. Mehta Institutional Research as of 28th March 2024

Balance Sheet

Particulars (₹ Mn)	FY22	FY23	FY24E	FY25E	FY26E
Total Equity	**8,632**	**11,419**	**26,729**	**32,585**	**40,781**
Total Borrowings	2,099	1,969	-	-	-
Trade Payables	3,418	3,663	4,645	5,978	7,600
Other Current liabilities	1,535	1,093	1,265	1,265	3,064
Total liabilities	**9,720**	**9,990**	**6,673**	**8,006**	**11,427**
Net Block	5,272	5,696	7,283	11001	12378
Inventories	3,582	5,601	5,399	6,725	8,360
Trade Receivables	5,261	6,696	7,988	10,018	12,704
Cash and Bank	831	618	9,757	3,537	4,485
Other Financial Assets	46	61	85	85	85
Other Current Assets	3,174	2,460	2,446	2,446	2,446
Total Assets	**18,351**	**21,409**	**33,434**	**40,623**	**52,241**

Source: Asit C. Mehta Institutional Research as of 28th March, 2024

Cash Flow Statement

Particulars (₹ Mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash Flow from Operations	320	384	337	834	671
Cash Flow from Investing Activities	(134)	(955)	(266)	(450)	(180)
Cash Flow from Financing Activities	(139)	359	905	(308)	(431)
Net Increase/Decrease in Cash & Cash Equivalents	47	21	978	354	449

Source: Asit C. Mehta Institutional Research as of 28th March, 2024

Peer Information

The product offering of Aeroflex Industries is different from major players in the industry. However, for the sake of comparison, we have taken companies operating within the iron & steel product industry. On the basis of the product offering, closest competitors for Aeroflex Industries are: Venus Pipes & Tubes Ltd, Hi-Tech Pipes Ltd and Usha Martin Ltd.

	9M-FY24			
Particulars (₹ Mn)	**Aeroflex Industries**	**Venus Pipes & Tubes Ltd**	**Hi-Tech Pipes Ltd**	**Usha Martin Ltd.**
Sales	243	581	2,019	2,396
EBITDA	50	101	80	447
EBITDA Margins	20.6%	17.4%	3.9%	18.7%
PAT	31.5	61	33	318
PAT Margins	12.98%	10.50%	1.62%	13.26%
EPS	2.61	30.1	10.4	10.4
ROCE %	34.6	22.9	21.2	14.9
ROE %	32.4	19.6	18.8	13.6
P/BV	13.9	10.3	4.3	4.19
Market Cap	16,940	15,699	20,066	96,984

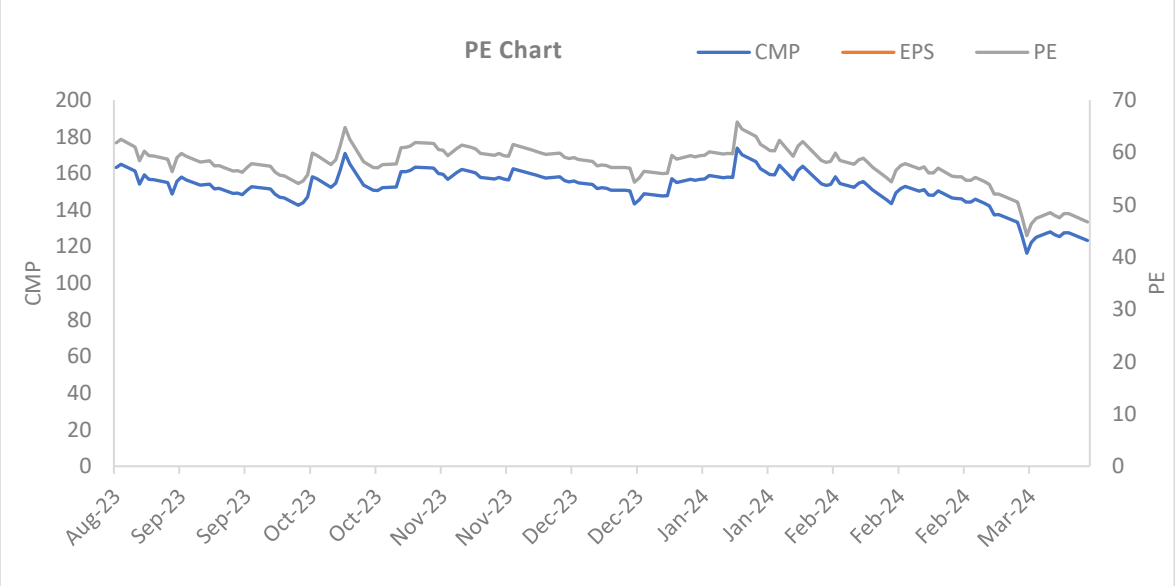
The market capitalisation of Aeroflex Industries stands at Rs 1,583 crores as on 15th March, 2024. Having said that, we have considered companies in the similar market capitalisation range and companies with similar pricing power and market position. Hence we believe that: Venus Pipes & Tubes Ltd, Hi-Tech Pipes Ltd and Usha Martin Ltd are its close competitors.

What makes Aeroflex Industries attractive is its ability to generate return on its capital employed higher than its peers (34.6%). Hence it generates higher returns on its equity (32.4%). The company has also outdone its peers in terms of EBITDA margins and PAT margins, which makes us believe that the company has the capabilities to outperform its peers in the longer term. Once the Capex plan is executed, with better economies of scale, margins are likely to improve further.

Valuations

Price-to-Earnings Methodology: We value Aeroflex Industries using the Price-to-Earnings Multiple. We estimate the EPS for FY26E to be Rs 6.67. We value the company with a 27x, P/E multiple on its FY26E earnings. Comparable companies currently trade at 35x. We assign a 25% discount to this multiple, as SAT industries remains it single largest promoter with a 67% holding. Aeroflex industries is undertaking significant capital expenditure to set up a new product line and to cater to higher demand. As new capacities are commercialized, better utilization is expected, which shall lead to higher margins and free cash generation. We expect returns from capital expenditure to materialise from FY26 onwards.

The price target is Rs 183/-and we initiate coverage with a 'Buy' rating, with an upside potential of 40%.



Source: Tickr.

Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margins %	19.48%	20.06%	20.44%	21.72%	23.09%
Net Income Margin %	11.40%	11.20%	12.96%	14.67%	15.82%
Current Ratio	1.71x	1.96x	3.85x	2.85x	2.46x
Quick Ratio	0.81x	0.93x	3.04x	2.01x	1.73x
Return on Capital %	33.90%	30.60%	20.9%	25.2%	28.2%
Return on Equity %	38.00%	30.10%	15.7%	18.9%	21.2%

Source: Asit C. Mehta Institutional Research as of 28th March 2024

Corporate Governance

Exchange disclosure for the Quarter ended 30th December, 2023

Annexure I							
Annexure I to be submitted by listed entity on quarterly basis							
I. Composition of Board of Directors							
Disclosure of notes on composition of board of directors explanatory							
Whether the listed entity has a regular chairperson						Yes	
Whether the chairperson is related to MD or CEO						Yes	
Sr	**Title (Mr / Ms)**	**Name of the Director**	**PAN**	**Category 1 of directors**	**Category 2 of directors**	**Category 3 of directors**	**Date of Birth**
1	Mr	Asad Daud	APGPD9243R	Executive Director	Chairperson	MD	03-08-1990
2	Mr	Harikant Ganeshlal Turgalia	AADPT4782B	Non-Executive - Non Independent Director	Not Applicable		30-07-1962
3	Mr	Mustafa Abid Kachwala	AHDPK4137C	Executive Director	Not Applicable		23-02-1968
4	Mr	Ramesh Chandra Soni	AEAPS8452A	Non-Executive Independent Director	Not Applicable		19-10-1959
5	Mr	Partha Sarathi Sarkar	AAFPS3434H	Non-Executive - Independent Director	Not Applicable		19-04-1951
6	Mr	Arpit Khandelwal	CPNPK8698L	Non-Executive - Independent Director	Not Applicable		25-04-1991
7	Ms	Shilpa Bhatia	AHHPB8991R	Non-Executive - Independent Director	Not Applicable		29-03-1974

There is no material non-disclosure concerning compliance on the BSE's website. There was no investor complaint unresolved at the end of the quarter.

Related-party Transactions

V. Related-party Transactions			
Aeroflex Industries			
Scrip Code: 543972		**Quarter Ending: December 2023**	
Sr	**Subject**	**Compliance status (Yes/No/NA)**	**If status is "No" details of non-compliance may be given here**
1	Whether prior approval of audit committee obtained	Yes	-
2	Whether shareholder approval obtained for material RPT	NA	-
3	Whether details of RPT entered into pursuant to omnibus approval have been reviewed by audit committee	Yes	-
Disclosure of notes on related-party transactions			-
Disclosure of notes of material transaction with related party			-

Affirmations

VI. Affirmations

Sr no.	Compliance status (Yes/No)	
1	The composition of board of directors is in terms of SEBI (Listing obligations and disclosure requirements) Regulations, 2015	Yes
2	The composition of audit committee is in terms of SEBI (Listing obligations and disclosure requirements) Regulations, 2015 **a. Audit committee**	Yes
3	The composition of the nomination and remuneration committee is in terms of SEBI (Listing obligations and disclosure requirements) Regulations, 2015 **b. Nomination and remuneration committee**	Yes
4	The composition of the stakeholders relationship committee is in terms of SEBI (Listing obligations and disclosure requirements) Regulations, 2015 **c. Stakeholders' relationship committee**	Yes
5	The composition of the risk management committee is in terms of SEBI (Listing obligations and disclosure requirements) Regulations, 2015 **d. Risk management committee (applicable to the top 1000 listed entities)**	NA
6	The committee members have been made aware of their powers, role and responsibilities as specified in of SEBI (Listing obligations and disclosure requirements) Regulations, 2015	Yes
7	The meetings of the board of directors and the above committees have been conducted in the manner as specified by SEBI (Listing obligations and disclosure requirements) Regulations, 2015	Yes
8	This report and/or the report submitted in the previous quarter has been placed before board of directors	Yes
9	Any comments/observations/advice of Board of Directors may be mentioned here:	The report for the previous quarter was placed before the Board of Directors as the company in its meeting dated November 03, 2023. This report will be placed before the Board of Directors at its next board meeting. Any comments/observations/ advice of the Board of Directors will be mentioned in the report of next quarter.

Annexure I

Sr	Subject	Compliance status
1	Name of signatory	Kinjal Kamlesh Shah
2	Designation	Company Secretary and Compliance Officer

Key Managerial Personnel

- **Mr. Asad Daud (CMD):** Mr Daud, aged 33 years, is the Chairman and Managing Director of the company. He holds a bachelor's degree in accounting and finance from H.R. College of Commerce and Economics, Mumbai, and a master's degree in accounting and finance from London School of Economics, London. With more than 12 years of expertise in the manufacturing and industrial sector, he has been crucial to the company's growth both, domestically and internationally. He is actively involved in introducing innovation into the company's operations and products. His advice has enabled the company to expand the range of its business ventures.

- **Mr. Mustafa Abid Kachwala (Whole-Time Director & Chief Financial Officer):** The 55-year-old full-time director of the company, Mr Kachwala graduated from Mumbai University with a bachelor's degree in commerce. Before joining Aeroflex Industries, he worked for Akbarallys Pharma Vet in Mumbai, from 1986 to 2004. He began working for Aeroflex in 2010 and, on November 28, 2022, he was given the new title: Chief Financial Officer.

- **Mr. Harikant Ganeshlal Turgalia (Non-executive Director):** Mr. Turgalia**,** aged 60 years, is the Non-executive Director of the company. He holds a bachelor's degree in commerce from the University of Udaipur. He has 30 years of management administration experience. Mr. Turgalia was associated with Aeroflex's promoter since 2001 and is responsible for handling the finances of the company.

- **Ms. Kinjal Shah (Company Secretary & Compliance officer):** Ms. Shah earned her B.Com from Sydenham College of Commerce and Economics. Ms. Shah obtained her Company Secretary charter (C.S) from the Institute of Company Secretaries of India. Her prior experience was with Vipul Organics Limited as a Company Secretary and Compliance Officer.

- **Ms. Shilpa Bhatia (Independent Director):** Ms. Bhatia graduated from Mumbai University with a bachelor's and master's degree in law, in addition to a diploma in personnel management from XIM Mumbai and a bachelor's degree in arts from St. Xavier's College in Mumbai. With over 20 years of experience, she is a practicing lawyer in the Bombay High Court.

- **Mr. Ramesh Chandra Soni (Independent Director):** Mr. Soni holds a bachelor's degree in commerce from the University of Udaipur. He is also a fellow member of Institute of Chartered Accountants of India. A practicing chartered accountant, Mr. Soni has experience of over 35 years in the fields on accounts, finance, taxation and banking.

- **Mr. Partha Sarathi Sarkar (Independent Director**): Mr. Sarkar graduated with a degree in technology from the Indian Institute of Technology in Delhi and a master's degree in business administration from the Indian Institute of Management. He began his career in Mumbai with Unilever before joining the Tata Administrative Services, where he worked in a variety of Tata firms for more than 20 years in various capacities. In the early 1980s, he collaborated closely with Mr. Ratan Tata to create the first long-term strategic plan for the Tata Group. Subsequently, he founded other businesses under the Tata Group. Additionally, he has provided advising and consulting services to numerous businesses

- **Mr. Arpit Khandelwal (Independent Director):** Mr. Khandelwal, a member of Institute of Chartered Accountants of India, holds a bachelor's degree in commerce from the University of Rajasthan. A Chartered Financial Analyst with 10 years of experience in the field of risk management, corporate laws, indirect taxes and international trade laws.

Risk Factors

1. **High % Contribution from Exports:**
   Exports account for around 80% of the company's revenue. Of this, exports to the USA constitute 29% of the revenue from operations in FY23. The company may be subject to significant import duties and restrictions from the relevant regulatory authorities of the said countries. Any substantial increase in such duties or the inability to comply with related regulatory requirements may have an adverse effect on the business and results of operations. Export destination countries may also enter into free trade or regional trade agreements with countries other than India. Such agreements and alterations of existing tax treaties may lead to increased competition or may even place the company at a competitive disadvantage compared to manufacturers in other countries. Further, the Government of India (GOI) provides fiscal benefits on exports and imports. These benefits may change from time to time, and any discontinuance or non-availability of such fiscal benefits may impact the operations of the company.

2. **Dependence on China for Import of Raw Material:**
   The company has expressed its desire to reduce its dependence on raw material from China and is certain that, by the end of FY25, its dependence will fall below 50%. The challenge is the lack of suppliers of raw material. However, currently the dependence still stands at around 65%. This is because only Jindal Steel, at present, provides raw material needed by Aeroflex Industries. Hence, it is forced to import precision coils and S.S sheets from China. Global headwinds, the loss of a significant supplier, increase in the price of raw material, and a shortage in the quantity or quality of such raw material, either immediately or over time, could impact the company's ability to pass on these costs onto the customers. Its working capital cycle may be significantly impacted by these factors, due to decreased inventory levels and an increase in trade receivables.

3. **Dependence on a Single Manufacturing Unit:**
   The company has procured land near its existing manufacturing plant in Taloja, Navi Mumbai for adding another manufacturing unit in future. However, as things stand, the company is dependent on a single manufacturing unit. Any slowdown or shutdown in the manufacturing operations could have an adverse effect on the business, financial condition and results of operations.

4. **Absence of Long-term Contracts with Customers:**
   Although the company receives a large number of repeat orders from its customers, it has not entered into any long-term contracts or any agreements with them. In the absence of any long-term agreements or contracts, the business poses challenges to its ability to continue to supply products to these customers in future. Further to this, the number of purchase orders can vary from quarter to quarter, which has a significant impact on the company's revenue, operations and cash flows. Aeroflex Industries stated that it expects this trend to continue in future. Additionally, the products manufactured are tailor-made to each customer's requirements. The inability of proper execution and delay in delivery may lead to order cancellation, thereby severely affecting margins.

5. **Absence of Long-term Contracts with Suppliers:**
   Aeroflex Industries has not entered into any long-term contract with suppliers for the procurement of raw material. The company's competitiveness, manufacturing costs and profitability depend on its ability to source and maintain a stable and sufficient supply of raw materials. Aeroflex Industries procures a majority of stainless steel coils from international markets, including China. It procures stainless steel wires and fittings made of various materials, including stainless steel, polytetrafluoroethylene and other material, from India and international markets. Due to the absence of any long-term contact and agreement, the company may face challenges such as an increase in costs or a shortfall in the availability of quality raw material. This could have a significant impact on its business.

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	<-10%
HOLD	<-10% to 15%

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