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Issue Details

| Issue Details | |
|---|-----------|
| Issue Size (Value in ₹ million, Upper Band) | 3,510 |
| Fresh Issue (No. of Shares in Lakhs) | 150.0 |
| Offer for Sale (No. of Shares in Lakhs) | 175.0 |
| Bid/Issue opens on | 22-Aug-23 |
| Bid/Issue closes on | 24-Aug-23 |
| Face Value | Rs. 2 |
| Price Band | 102-108 |
| Minimum Lot | 130 |

Objects of the Issue

- **Fresh issue: ₹ 1,620 million**
 1. Repayment and/or pre-payment of its outstanding borrowings.
 2. Funding its working capital requirements.
 3. General Corporate purposes.
- **Offer for sale: ₹1,890 million.**

| Book Running Lead Managers |
|--|
| Pantomath Capital Advisors Private Limited |
| Registrar to the Offer |
| Link Intime India Private Limited |

| Capital Structure (₹ million) | Aggregate Value |
|--|-----------------|
| Authorized share capital | 560.00 |
| Subscribed paid up capital (Pre-Offer) | 228.64 |
| Paid up capital (post-Offer) | 258.64 |

| Share Holding Pattern % | Pre-Issue | Post Issue |
|----------------------------|--------------|--------------|
| Promoters & Promoter group | 91.1% | 66.9% |
| Public | 8.9% | 33.1% |
| Total | 100.0 | 100.0 |

Financials

| Particulars (₹ In million) | FY23 | FY22 | FY21 |
|---------------------------------|--------------|--------------|--------------|
| Revenue from operations | 2,695 | 2,408 | 1,448 |
| Operating expenses | 2,154 | 1,941 | 1,225 |
| EBITDA | 541 | 467 | 223 |
| Other income | 0 | 2 | 1 |
| Depreciation | 52 | 42 | 38 |
| EBIT | 489 | 427 | 186 |
| Interest | 46 | 63 | 89 |
| PBT and Exceptional item | 443 | 365 | 97 |
| Exceptional Item | (31) | 4 | (16) |
| PBT | 412 | 369 | 80 |
| Tax | 111 | 94 | 20 |
| Consolidated PAT | 302 | 275 | 60 |
| EPS | 2.33 | 2.13 | 0.46 |
| Ratios | FY23 | FY22 | FY21 |
| EBITDAM | 20.06% | 19.41% | 15.41% |
| PATM | 11.20% | 11.44% | 4.14% |
| Sales Growth | 19.88% | 27.72% | |

Company Description

Company manufacturers and suppliers of environment friendly metallic flexible flow solution products including braided hoses, unbraided hoses, solar hoses, gas hoses, vacuum hoses, braiding, interlock hoses, hose assemblies, lancing hose assemblies, jacketed hose assemblies, exhaust connectors, exhaust gas recirculation (EGR) tubes, expansion bellows, compensators and related end fittings collectively known as flexible flow solutions catering to global as well as domestic markets. Company exports their products to more than 80 countries including Europe, USA, and others.

They supply their products to a wide spectrum of industries for controlled flow of all forms of substances including air, liquid and solid. For the Fiscals March 31, 2023, 2022 and 2021, they served total 723, 606 and 538 customers out of which they served 217, 190 and 169 customers across 51, 49 and 43 countries respectively and 506, 416 and 369 domestically. Flexible flow solutions play a critical role in transfer of substances (air, liquid and solid) in any industrial or commercial ecosystem, connecting the origin and end points of various processes. For example, flow solution products are required in fire sprinklers, gas supply, flow of air (conditioned / controlled) in aircrafts, fueling and hydraulics in aircrafts. Their capabilities to provide customized solutions up to the assemblies' level enable them to tap flexible flow solutions value chain. Their product categories include braided hoses, unbraided hoses, solar hoses, gas hoses, vacuum hoses, braiding, interlock hoses, hose assemblies, lancing hose assemblies, jacketed hose assemblies, exhaust connectors, exhaust gas recirculation (EGR) tubes, expansion bellows, compensators, and related end fittings. As on March 31, 2023, they had more than 1,700 Product SKUs (Stock Keeping Units) in their product portfolio.

They are into metallic flexible flow solutions made of SS. They have recently developed products made of bronze as well. Their products replace flow solutions made of rubber and polymers. Flexible flow solutions made with stainless steel corrugation are becoming a preferred solution because of their numerous advantages. The technical characteristic of SS is the basic attribute that imparts flexible flow solutions made with stainless steel corrugation with its advantages including 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 full vacuum, compatibility to chemicals, among others. Despite of being highly durable over other non-metallic materials for constant flow of substances, their products require replacements due to reasons including operational efficiency, regulatory requirements and zero waste and leakage requirements (for example usage location within the plant or setup, external temperature and ambience conditions, vibrations, and movement frequency), after a certain period as per the customers' policies or applicable regulatory requirements.

Valuation

Aeroflex Industries Ltd is a global flexible flow solutions provider operating in addressable market, catering to diverse industry segments with Export oriented business model and Primary manufacturer of flexible flow solutions (Make in India with no listed peers with advance manufacturing facility and R&D infrastructure).

At the upper price band company is valuing at P/E of 46x FY23 earnings with a market cap of ₹ 13,966 million post issue of equity shares and return on capital employed of 31.91%.

We believe that issue is fairly priced and recommend "Subscribe - Long Term" rating to the IPO.

Broad Description of their Products Offerings.

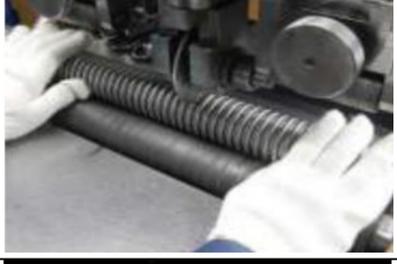
The table below sets forth certain information on their key products, their applications, and the industries such products are used in:

| Product | Description | Picture | |
|--|---|---|---|
| Stainless Steel Corrugated Flexible Hoses (With and Without Braiding) | Made from SS sheet which is 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. Two types of corrugation – annular or helical is applied. Corrugations are formed through one of two processes: hydro-formed or mechanically formed. Segmentation of the flexible hoses into annular or helical is dependent on the orientation of the corrugation. In annular, each corrugation is independent and parallel to each other. On the other hand, in helical, it is one continuous corrugation that spirals around the flexible hose. |  | |
| Stainless Steel Braiding | Braid is the outer cover made of wire of SS or similar alloy which is wound tightly over the corrugated Flexible Flow Solutions. Braiding helps the flexible hoses to withstand high pressure, widening its application segment. Braid applied can be either single braid or multiple braid, while braided braid is used on large-diameter hose. |  |  |
| Stainless Steel Interlock Hoses | 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 and can also be used as an outer jacket for insulated pipelines. |  |  |
| Assemblies | Fittings attached to both ends of the flexible hoses is used to connect it for intended applications. Fitting of various types can be welded / soldered to the hose ends. This flexibility in fittings widens the scope of applications where flexible hoses made with stainless steel corrugation can be used. Once fittings are attached to the hose, the component is termed as assembly. |  |  |

The following table sets forth a breakdown of their revenue from operations from various industry segments, in absolute terms and as a percentage of total revenue from operations, for the periods indicated:

| Industry/Sector | Fiscal 2023 | | Fiscal 2022 | | Fiscal 2021 | |
|---------------------------------|-----------------|-------------|----------------|-------------|----------------|-------------|
| | Revenue | In% | Revenue | In% | Revenue | In% |
| Steel | 576.81 | 21.96% | 509.51 | 21.72% | 381.79 | 27.16% |
| Oil and Gas | 497.39 | 18.93% | 375.31 | 16.00% | 200.19 | 14.24% |
| Refineries | 432.17 | 16.45% | 316.67 | 13.50% | 171.59 | 12.21% |
| Fire Sprinklers & Fire Fighting | 430.79 | 16.40% | 572.1 | 24.39% | 285.99 | 20.35% |
| Chemicals & Petrochemicals | 412.39 | 15.70% | 351.85 | 15.00% | 228.79 | 16.28% |
| Metals & Mining | 215.18 | 8.19% | 159.61 | 6.80% | 111.96 | 7.97% |
| Solar | 17.14 | 0.65% | - | - | - | - |
| Others | 45.33 | 1.73% | 60.63 | 2.58% | 25.24 | 1.80% |
| Total | 2,627.20 | 100% | 2345.68 | 100% | 1405.56 | 100% |

Manufacturing Process

| Steps | Process | Process flow chart | Description |
|-------|--|---|---|
| 1 | Rolling steel sheet to create pipes |  | Creating the pipe (tube element) is the most important process in creating flexible hoses and expansion joints. |
| 2 | Forming tubes with forming machine |  | Roll forming – A special wheel is used to form corrugations on the pipe. Bulge forming (elastomeric forming) – Pressure is applied to a special resin from the inside of the pipe, and the force of its expansion is used to form corrugations. Liquid-pressure forming (hydroforming) – A method like bulge forming that uses a liquid (such as water or oil) instead of a special resin to form corrugations |
| 3 | Weaving wire braiding using braiding machine |  | Wire braiding (woven stainless-steel wires) is a component that increases the pressure resistance and strength of flexible hoses. Wire braiding is made using a braiding machine which is mounted on the outside of flexible hoses. 1) They issue wire Spool from the Store as per the Plan set by the Production Plan Control Team. 2) Then the Hydraulic/Mechanical Hose is loaded from Hose store to Braiding Machine 3) The Wire spool is loaded at bobbin winding machines for the bobbin spool. 4) Once bobbin spool set ready then its loaded to braiding machine. 5) Once the production done at machine either in only braid/hose with braid then its check with QC 6) Once Testing done from Quality Control then ready product is transferred to 170 FGS/Assembly/Packing/Supply Chain |
| 4 | Cutting tubes to production length |  | Flexible hoses are cut to the specified length as specified by the Customer's Specifications |
| 5 | Attaching Joints |  | There are two methods of attaching joints to flexible hoses or expansion joints. 1. Welding – Joint types such as flange joints and screw joints can be attached to flexible hoses and expansion joints by welding. 2. Crimping – Joint types such as flange joints and screw joints can be crimped with a special crimping machine and attached via a special connector. |
| 6 | Testing |  | All flexible hoses and expansion joints are leak tested. 1. Immersion-type airtightness test method – Air is pumped into the product to pressurize it. The product is then immersed in that state and leakage is checked for by examining whether bubbles appear. 2. Non-destructive inspection – Non-destructive inspections are used to check the solidity of welds of difficult-to-immersed parts such as large diameter expansion joints. |
| 7 | Drying |  | Water or other liquids must not remain inside products. Products are dried by warming them to evaporate remaining moisture or pumping warm air into the product. |
| 8 | Shipment |  | Processes from packaging to shipment also affect product quality. Suitable packaging is used to prevent damage to products during shipment, ensuring products reach users in the optimum state. |

Competitive Strengths

➤ Global flexible flow solutions provider operating in addressable market, catering to diverse industry segments.

They are a global flexible flow solutions company developing and manufacturing metallic flexible corrugated hoses, assemblies, and fittings for diverse range of industrial sectors, which are used on an ongoing basis for efficient flow of varied types of materials and substances including liquid, air and solid from one point to another. This makes these solutions critical to the substance, process, and the entire ecosystem. Their manufacturing facility and certified processes, their global footprint and exposure in over 80 countries, their track record of commercializing and scaling up new products and their research and development capabilities, position them advantageously to capture requirements of diverse end user industrial sectors. As per the Industry report dated March 29, 2023, global SS flexible hose industry is estimated to be worth USD 25 Billion in 2020 with the size of SS corrugated hose estimated at USD 12.5 Billion which is slated to grow to USD 38 Billion and USD 18 Billion by 2027. The key drivers for flexible flow solutions are rapid urbanization which has accelerated the pace of the infrastructure developments and real estate construction that has triggered the demand of HVAC system and translated in promising outlook for SS flexible hoses. Moreover, large scale industrialization and modernization in agriculture and key manufacturing sectors is fueling the demand for SS corrugated hose (industrial hoses). Their flexible flow solutions find applications in diverse industrials segments across the globe. Company believes that growth of their business is directly linked to the growth in both traditional industrial segments including Manufacturing, Automotive, Oil & Gas (Exploring & Refineries), HVAC among other as well as Emerging Industries including Renewables (Solar), Lithium-Ion Battery Management, Semiconductor Manufacturing, Robotics (Industrial robots & Drones) among others where their solutions are used.

➤ Export oriented business model

For Fiscals 2023, 2022 and 2021 their Company's exports were ₹2,171.80 million, ₹2,035.59 million, and ₹1,171.15 million which constituted 80.60%, 84.53%, and 80.90% of their revenue from operations respectively. For the Fiscal March 31, 2023, company exported their products to 51 countries. Over the period, they have been able to establish significant presence in the exports markets through providing specified SS flexible flow solutions across industries. Below are the country wise exports of their products as a % of their revenue from operations for Fiscal 2023, 2022 and 2021:

| Name of the Country | Revenue from Exports for Fiscal 2023 | Fiscal 2023 | Revenue from Exports for Fiscal 2022 | Fiscal 2022 | Revenue from Exports for Fiscal 2021 | Fiscal 2021 |
|---------------------|--------------------------------------|--------------------|--------------------------------------|--------------------|--------------------------------------|--------------------|
| USA | 763.21 | 28% | 775.49 | 32% | 382.71 | 26% |
| UAE | 187.39 | 7% | 146.65 | 6% | 49.59 | 3% |
| Italy | 119.34 | 4% | 121.06 | 5% | 103.82 | 7% |
| Spain | 118.72 | 4% | 142.52 | 6% | 72.06 | 5% |
| Canada | 92.24 | 3% | 58.3 | 2% | 26.65 | 2% |
| Belgium | 79.75 | 3% | 64.83 | 3% | 72.89 | 5% |
| Brazil | 68.1 | 3% | 66.28 | 3% | 45.72 | 3% |
| UK | 70.22 | 3% | 102.47 | 4% | 34.29 | 2% |
| Russia | 62.44 | 2% | 10.05 | 0% | 14.51 | 1% |
| South Africa | 62.41 | 2% | 25.48 | 1% | 10.5 | 1% |
| Other Countries | 547.96 | 20% (41 countries) | 522.47 | 22% (39 countries) | 358.4 | 25% (33 countries) |
| Total | 2,171.80 | 81% | 2,035.59 | 85% | 1,171.15 | 81% |

➤ Primary Manufacturer of flexible flow solutions (Make-in-India, Make-For-World) with no listed peers with advanced manufacturing facility and R&D infrastructure.

They are the manufacturer of metallic flexible flow solutions in the country (Make-in-India, Make-For-World) with an installed capacity of 11 million meters per annum. Their manufacturing facility, located at Taloja, Navi Mumbai, Maharashtra, is spread across 3,59,528 square feet of area and is equipped with mechanical and hydraulic corrugation machines, interlocking machines, braiding machines, bobbin machines and assemblies' equipment capable to manufacture range of customized hoses, braiding, assemblies, and fittings. They have 34 mechanical corrugation machines, 20 hydraulic corrugation machines, 4 interlocking machines and 28 braiding machines. Their manufacturing facility is certified in accordance with international standards of quality management systems, environmental management systems, health, and safety management systems. Their manufacturing facility also has an in-house Design and R&D laboratory, product testing department, dedicated finished product storage area, storage area for raw materials, spares, and consumables. From an employee safety and well-being point of view, their manufacturing facility has 105 fire extinguishers and a dedicated medical clinic. As on March 31, 2023, 383 people were employed at their manufacturing facility as permanent workers. The continuous flow nature of the process enables maximizing capacity over the entire catalyst life which ensures efficient optimization of the raw materials. They follow strict process control guidelines and international industry standards and practices. Further, the reaction loop rotary equipment such as high-pressure pumps and compressors are as per the American Petroleum Institute's codes and standards and the handling of process fluids is as per International Safety Guidelines ensuring reliable and safe operations. They also have an NABL accredited laboratory at their manufacturing facility with analytical instruments to ensure quality control. They operate a single manufacturing facility for the manufacture of all their products located at Taloja, Navi Mumbai in the state of Maharashtra spread across 3,59,528 square feet of area.



➤ **High entry and exit barriers.**

Given the critical nature of the applications, their solutions are subject to, and measured against quality standards (at both customer level as well as at the regulatory authority level governing the end user industry) and rigorous product approval systems with stringent design, engineering, and use specifications, which act as significant entry barriers for new players. Also, where they supply their products to OEMs, the end products of those OEMs are typically subject to stringent regulatory and industry standards where any change in the vendor of the product may require significant time and expense on part of the OEMs, which acts as an exit barrier and disincentives any such changes for them also.

Business Strategies

➤ **Expand their portfolio of solutions to capitalize on large opportunities across industrial segments.**

Company constantly seeks to develop and introduce new products and expand their capabilities to serve diverse industrial segments to enhance their market position of a global flexible flow solutions company. Currently they develop and manufacture flexible flow solutions made with stainless steel of various grades, to suit the specified end applications across industrial segments. Globally, the market for SS flexible hose is estimated to grow from USD 25Bn in 2020 to USD 38Bn by 2027 and that for corrugated hose is estimated to grow from USD 12.5Bn in 2020 to USD 18Bn by 2027. Historically the demand for flexible flow solutions has largely been driven by developed industrial segments such as oil & gas, refineries, chemicals & petrochemicals, paper & pulp, steel, power, among others. They intend to strengthen their domestic and global market position by further moving up in the flexible flow solutions value chain through offering complex and advanced assemblies, diversify their offerings through foraying into flexible flow solutions made with other high end materials including Bronze, Polytetrafluoroethylene, Hastelloy, Inconel and Monel, among others. Company believes that going forward, growth in the end user industries is expected to fuel the demand for metallic flexible flow solutions due to their properties such as 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 full vacuum, compatibility to chemicals, among others. Company believes growth in end-use industries such as oil & gas, refineries, chemicals & petrochemicals, paper & pulp, steel, power, semiconductors, electric vehicles, robotics and automation, aerospace and aviation, hydrogen fuel, solar, HVAC, among others, will lead to exponential increase in demand for high end flexible flow solutions made with stainless steel and other high-end materials. Company believes that expansion of their solutions portfolio through advanced and complex assemblies and solutions and multi-materials offerings will lead to a further increase in their operational margin, which was 20.05%, 19.39% and 15.43% for Fiscals ended 2023, 2022 and 2021, respectively.

➤ **Scale up their In-house Design and R&D efforts.**

Company has an in-house team of Design and R&D professionals focusing on developing complex and advanced flow solutions based on the global industrial trends and standards, research on existing and new high-end materials and optimize their manufacturing processes. Currently, their Design and R&D department is housed in the premises of their manufacturing facilities itself, with a team size of 7 members. As per their Consolidated Restated Financial Information, for the Fiscals March 31,2023, March 31,2022, and March 31,2021, they spent ₹ 23.44 million, ₹ 16.52 million, and ₹ 12.96 million, respectively, on R&D-related expenses, which formed 0.87 %,0.69% and 0.89% of total revenue from operation in these periods. As they grow further, they intend to further scale up their Design and R&D efforts and add resources and technically competent manpower to undertake complex research, development and innovations on other high-end materials, new product applications and design complex products in-house for varied applications across industrial segments. Currently, they provide customized solutions to their customers based on the design and specifications provided by them for the specific end use. They believe that with well-equipped and dedicated in-house Design capabilities, coupled with their track record in the flow solutions business, they would be able to add further value in their offerings through providing upfront design services to customers, acting as backward integration of their capabilities. This would, in turn, result in a higher level of customer servicing and optimization of operating margins as they would be able to tap a larger value chain of the flow solutions.

➤ **Increase focus on global markets and enhance their international presence.**

They are an export-oriented Company. For Fiscals 2023,2022 and 2021 their exports were ₹2,171.80 million, ₹2,035.59 million, and ₹1,171.15 million which constituted 80.60%, 84.53%, and 80.90% of their revenue from operations respectively. For the Fiscal March 31, 2023, they exported their products to 51 countries. The top 10 countries by export volumes for Fiscal March 31, 2023, included USA, UAE, Spain, Italy, Canada, Belgium, Brazil, UK among others. The company intends to leverage their diversified and global delivery model by continuing to focus on tailor-made flexible flow solutions designed to suit their customers' preferences. Their existing relationships and their ability to deliver flexible flow solutions on a timely basis, enable them to follow their existing customers to newer geographical locations and to establish a presence in such locations. They intend to expand their operations in geographies such as USA, Europe, Far East Region and Middle East and North Africa (MENA) region by opening of own strategic delivery locations in these regions, expanding their share of supplied products, as well as by diversifying their portfolio. Such expansion will ensure integrated solutions under a single roof along with timely delivery to their customers at their locations in a cost-efficient manner. They believe that their exposure to serving export markets is one of the key factors that their customers take into consideration while choosing them as their supplier of choice for their flexible flow solutions requirements. They have enduring relationships with several customers. They intend to continue to leverage their long-standing relationships with customers and increase market share in relation to the products they currently supply to such customers. They intend to continue moving up in the flexible flow value chain by providing solutions suitable for high-end, complex, and advanced applications across industrial segments. While they have various key customers, who have been associated with them for a long time, they nevertheless have a diversified customer base and continue to add new customers. They have added 185 new customers since Fiscal 2021 globally.

➤ **Expand their domestic business to leverage the opportunities across industrial segments.**

Historically, the majority of their business has been derived from selling their solutions to customers in the international markets. They had derived Rs. 433.45 million, Rs. 294.28 million and Rs. 226.16 million constituting to 16.09%, 12.22 % and 15.62 % of revenue from operations in the Fiscals ended 2023, 2022 and 2021 respectively from sales in domestic markets. To make India self-dependent in manufacturing and reduce the imports, Government of India had announced Production Linked Incentive (PLI) Scheme for various industries including advanced chemistry cell battery, electronic products, automobiles and auto components, pharma, telecom and networking products, textile, food products, white goods, and specialty steel. The scheme is primarily focused towards attracting the domestic and international manufacturing companies across the sectors to manufacture locally in India to achieve the vision of Atmanirbhar Bharat (Self-dependent India). 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 slated to increase. Given the emerging opportunities offered by the favorable trends and initiatives, the company aim to enhance their domestic presence and build market share through leveraging their exposure of providing complex flexible flow solutions in the exports markets.

➤ **Focus on Digitization and Industry 4.0 initiatives to drive operational efficiencies and achieve synergies.**

Offering quality products at desired time is a key aspect of maintaining and expanding their relationships with their customers. To that end, they have adopted several initiatives designed to improve their cost efficiency, and as one of their primary business strategies they intend to continue improving their cost efficiency. Their business operations are largely driven by coordination within and amongst different teams, shift planning, production scheduling, warehousing and logistics planning, maintenance of accurate data related to production, quality control, R&D and inventories, proper book-keeping, among others. Historically, they have been putting significant efforts to digitize their operations through implementation of various digital initiatives. Some of these initiatives include:

- Integrated SAP ERP implementation across their operations to streamline their record keeping and track their business operations on real-time basis.
- Connected all their production lines through digital mediums using dedicated tablets installed at the lines to derive real time data of the machines to improve efficiency.

They intend to continue to improve their operational efficiencies using a variety of technology and digitization led tools and techniques. They intend to automate various process to improve their energy usage efficiency, eliminate waste, improve productivity and manpower optimization, further improvise their water discharge practices, continually working on cost reduction including applying various techniques to their products to reduce cost. Company believes that through implementation of tools and techniques such as Internet of Things (IOT), Machine Learning systems and Industry 4.0 for their relevant machines or equipment, they will also support the identification of improvement areas and thus aim to bring synergies to the operational and business performance improvement process.

Capacity and Capacity Utilization

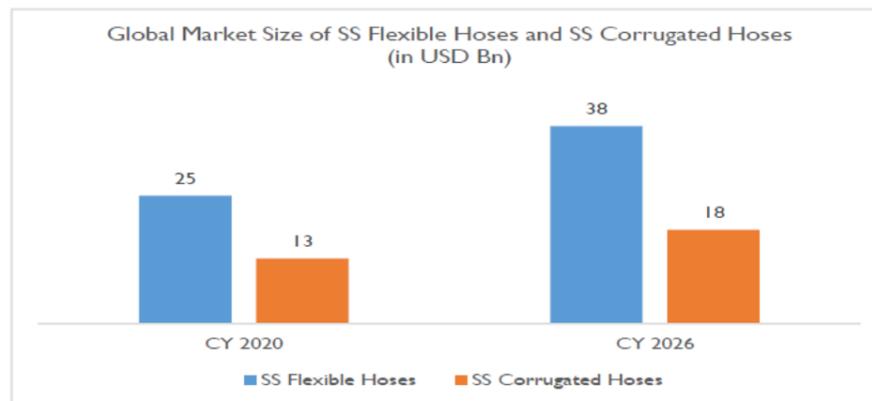
The following tables set forth their installed capacity, actual production, and utilization for their owned manufacturing facility for March 31, 2023, 2022, and 2021.

| Period | Total Capacity (Mtr) Annually | | |
|-----------|-------------------------------|-------------------|-------------|
| | Installed Capacity | Actual Production | Utilization |
| 2020-2021 | 1,10,02,389 | 78,13,316 | 71% |
| 2021-2022 | 1,10,02,389 | 99,47,049 | 90% |
| 2022-2023 | 1,10,02,389 | 91,49,491 | 83% |

➤ **Industry Snapshot:**

Global Market Scenario

Globally, the market for SS flexible hose was estimated to value at approximately USD 25 Bn in 2020 with the size of SS corrugated hose estimated at USD 12.5 Bn which is slated to grow to USD 38 Bn and USD 18 Bn by 2027, registering a CAGR of 7.5% and 6.3%, respectively. Supported by favorable product attributes, the demand for SS flexible hoses is being driven by rapid urbanization which has accelerated the pace of the infrastructure developments and real estate construction that has triggered the demand of HVAC system and translated in promising outlook for SS flexible hoses. Moreover, large scale industrialization and modernization in agriculture and key manufacturing sectors is fueling the demand for SS corrugated hose (industrial hoses).



Industry sources suggest the piping industry accounts for the largest market share amongst all end users while Asia Pacific accounted for the largest share of global stainless steel flexible hose market followed by North America. In coming years too, driven by healthy economic growth in China and India, Asia Pacific is expected to grow at the highest CAGR. Rising infrastructure spending and focused government initiative to curb carbon emission and push clean energy is expected to drive the growth of Flexible Flow Solutions made with Stainless Steel Corrugation from many key end user industries such as electric automobile, renewable water heating application and other energy efficient electrical appliances. While progress on factory 25 38 13 18 CY 2020 CY 2026 Global Market Size of SS Flexible Hoses and SS Corrugated Hoses (in USD Bn) SS Flexible Hoses SS Corrugated Hoses 136 automation for operational optimization and cost control in manufacturing sector is believed to have positive impact on Flexible Flow Solutions made with Stainless Steel Corrugation too.

Demand Scenario in India

Traditionally, the demand for Flexible Flow Solutions made with Stainless Steel Corrugation was largely driven by the industrial sector – manufacturing plants and manufacturing products from chemicals to paper. HVAC applications too were a major consumer, although the scale of business generated by this segment was lower compared to its industrial counterpart. The steady growth in industrial activity amidst some disruption along with the slow but steady transition from rubber / PTFE / polymer flexible hoses have resulted in a favorable demand landscape for Flexible Flow Solutions made with Stainless Steel Corrugation manufacturers. Between FY'18-9M FY23, over 1,840 projects (brownfield and greenfield) were completed in the manufacturing.

With Flexible Flow Solutions made with Stainless Steel Corrugation application being universal, this large base is believed to have supported a strong demand for the product. The transition from traditional flexible hoses too has accelerated the demand growth. Given the increasing preference for Flexible Flow Solutions made with Stainless Steel Corrugation in place of rubber / PTFE / polymer hoses, the demand for the former from the industrial sector would be stable.

This development would help in creating a stable user base for Flexible Flow Solutions made with Stainless Steel Corrugation, thus ensuring there is always a steady demand for the product. However, the coming years would witness demand from sector which are either at its infancy or yet to establish itself in India. The emergence of these new user segments would help immensely expand the addressable market for the product. Notable sectors which would create new demand include renewables (primarily solar heating), Lithium-Ion battery applications (EV as well as other battery applications), semiconductor manufacturing, and robotics.

Oil & Gas Sector

Oil & Gas sector is one of the major end user industries for Flexible Flow Solutions made with Stainless Steel Corrugation due to its favorable attributes such as corrosion resistance, reliable connection, good flexibility, and the ability to bend freely without deformation or obstruction. Stainless steel offers good resistance to high-pressure and high-temperature and so is widely used in refineries, pipelines, storage capacity, gas terminals, and retail outlets. It is used in pipeline connection application of gas, liquefied 137 petroleum gas, natural gas, and biogas. In the refining segment, it is used to transfer hydrocarbons, steam, and by-products & additives.

Therefore, the oil & gas industry has a close linkage that dictates the demand for Flexible Flow Solutions made with Stainless Steel Corrugation in the country. From average 62 project announced between FY18-20, the number of new projects announced in the oil & gas sector fell drastically to 4 in FY 2021, while the size of investment too declined from average Rs 919 billion to Rs115.2 billion. The drop in economic growth in FY20 and FY21 due to recessionary scenario and spread of pandemic respectively have lowered the energy demand. FY22 saw a temporary recovery in economic growth on the back of prolonged low interest rate and government stimulus, that translated in rising new project announcement, although it remained much low below the pre-pandemic level.

During FY22, the number of new project announcements grew to 29 against 4 in the previous year. In the current fiscal, series of interest rate hike to curb inflation both in global market and domestic market, has once again forced the companies in this sector to go slow on their expansion plans. During 9M FY23, the number of new project announcements again fell to just 8 projects. However, the number of projects outstanding in the sector hovered at 260 with aggregate investment value of Rs 3,500.6 billion as on year ending 31st Dec 2022. The large quantum of outstanding projects in the oil & gas industry is expected to support increasing procurement of components and equipment used in exploration & production. This positively impacts the demand for Flexible Flow Solutions made with Stainless Steel Corrugation.

Steel manufacturing sector

India is one of the leading producers of steel in the world, apart from being a leading consumer as well as exporter. The Country is the world's largest producer of sponge iron and the second largest producer of crude steel. The production of crude steel reached 124.7 million tons per annum in CY 2022, growing by 5.5% over the previous year. Between (CY 2017-22), the production of crude steel in India has increased by a CAGR of 4.2%. Installed production capacity for crude steel has increased by over 50% since FY 2014 to reach nearly 155 million tonnes in FY2022. Between Jun-2021- Dec-2022, nearly 29% of capacity expansion projects have been completed in the steel industry, which involved both greenfield and brownfield projects.

For Flexible Flow Solutions made with Stainless Steel Corrugation manufacturing sector, the expansion in steel production capacity in past has created a strong demand. In FY 2022, 64 new capital expenditure projects have been announced in the domestic steel manufacturing sector envisaging investment worth Rs 2,270 billion while outstanding investment at end of December 2022 stood at Rs 14.8 trillion spread across 349 products. Going forward, per CMIE capex estimates the capacity addition in steel is expected to slow down to 3 Mn tonnes in FY24 and nil capacity addition in FY25 against 5.5 Mn tonnes in FY23 as there exist sufficient capacity to near term demand till FY25. The expected slowdown in capacity addition is expected to translate into a slowing demand scenario for Flexible Flow Solutions made with Stainless Steel Corrugation manufactures from steel sector.

Chemical & petrochemical Sector

The highly diversified Indian chemical industry covers nearly 80,000 commercial products and is broadly classified into bulk chemicals, specialty chemicals, agrochemicals, petrochemicals, polymers, and fertilizers. Indian chemical industry is capable of manufacturing chemicals of varying complexity, from basic bulk chemical to specialty chemicals like dyes, surfactants, and construction chemicals. Annual production of basic chemicals – organic, inorganic, alkali chemicals, dyes & pigments, and pesticides – is estimated to have reached 11.6 million tons in FY 2022 (up to February 2022), recording an increase of 14.09% yoy.

This massive expansion plan is on account of the expected strong demand for chemicals from a fast-growing economy. Given the wide range of applications of chemicals, a growth in overall industrial activity would trigger higher demand. Although Indian chemical industry has built up a massive production capacity, given the strong economic growth expected in the coming years this capacity needs to be spruced up. To cater for the growing industry's demand, substantial investments are planned in chemical and petrochemical sector. As per CMIE data, about 721 new projects were announced in the chemical sector envisaging overall investment worth ₹2,997.93 Bn in FY 2022 which implies smaller project value per project. On contrary, large value projects aggregating investment worth ₹6,288.9 Bn spread across 550 projects were announced during 9M FY 2023.

HVAC

Ability to avoid thermal expansion caused by temperature fluctuations as well as avoid vibration has made Flexible Flow Solutions made with Stainless Steel Corrugation a piping option in HVAC systems. The usage of stainless-steel Flexible Flow Solutions ensures zero leakage during the process and lower maintenance cost as it provides a corrosion-free environment inside piping systems. Currently, the HVAC system penetration in India is though low compared to developed nation but it is steadily increasing on the back of increase in consumer purchasing power and aspirational change. The HVAC industry size in India is estimated to be around USD 7.8 – 8.5 billion as of FY 2022, growing at a CAGR of ~14% during FY 2018-2022.

A burgeoning services sector has fueled construction of office space, while increasing urbanization, changing lifestyle and consumption habits, of a younger workforce is giving rise to more and more supermarkets, hotels, and hospitality establishments. Government spending on infrastructure creation - such as Airports, Metros, amongst others - is also a major consumer of the HVAC&R industry. Amongst the four applications, Cooling accounts for the largest share; followed by Air Handling/Conditioning, Ventilation, and Heating. Office spaces, Organized retail (i.e., shopping malls, and supermarkets), Healthcare, and Hospitality sectors are the largest consumers of HVAC&R equipment and services. The expansion in commercial space driven by office space and retail industry would create opportunities for HVAC segment and benefit the growth of.

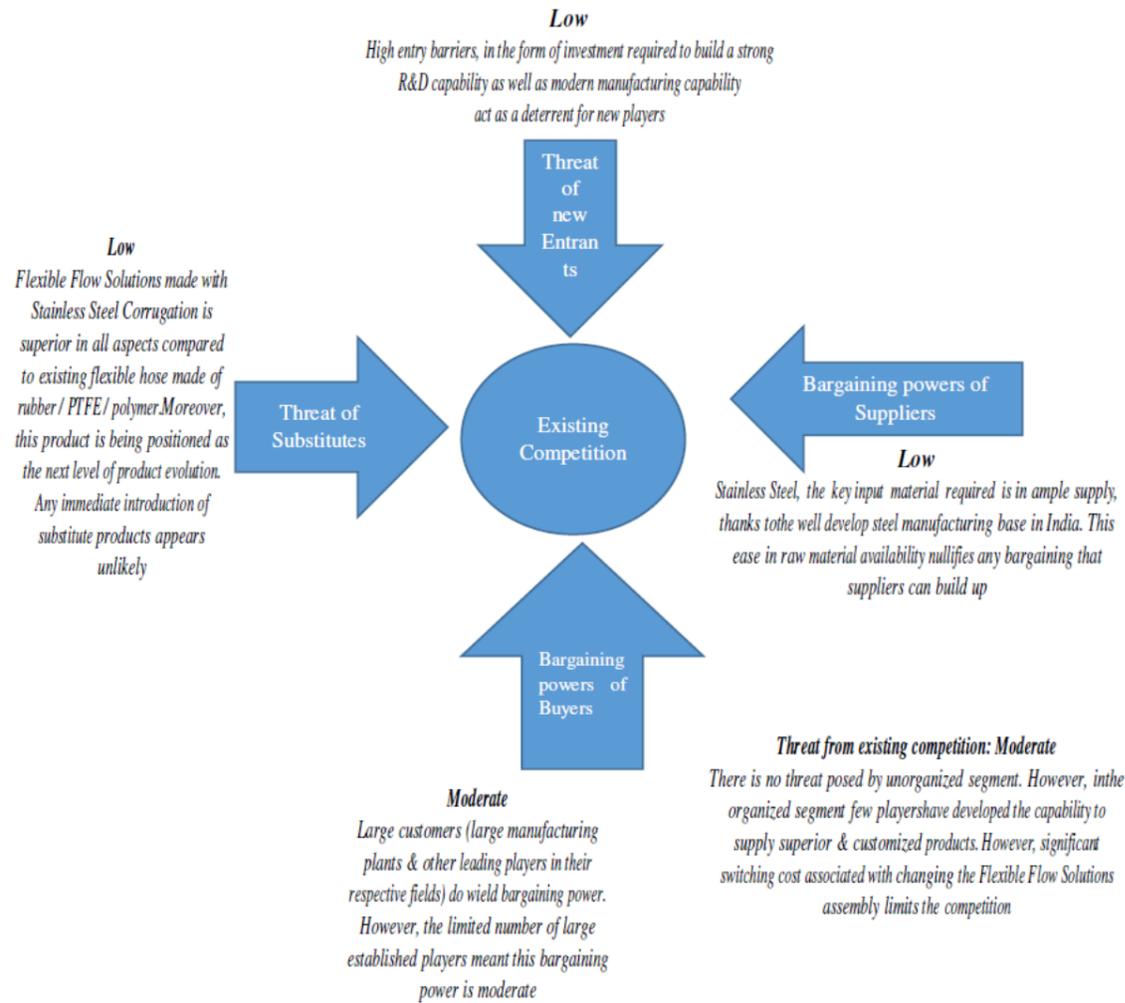
Renewable Energy - Penetration Solar Water Heating Application

Flexible Flow Solutions made with Stainless Steel Corrugation is finding increasing application in solar heating systems where it is used to transfer hot and cold water between thermal panels and storage tanks. Industry Sources suggest usage of solar water heater for any application where steam is produced using a boiler or steam generator can save 70-80% of electricity or fuel bills while a residence can save 70-80% on electricity by replacing its conventional water heater with a solar water heating system.

To scale the deployment of solar energy for thermal applications, MNRE has implemented 'Off-Grid and Decentralized Concentrated Solar Thermal (CST) Technologies for Community Cooking, Process Heat and Space Heating and Cooling Applications in Industrial, Institutional and Commercial Establishments' Scheme. As per Ministry of New & Renewable Energy, the domestic market for solar water heaters was only ₹65 Crore in 2011. Post 2012 the installation of solar water heaters in the country has been increased, on the back of a concerted effort by the

Government as part of the larger strategy to promote renewable energy. As per independent industry sources, the domestic market for solar water heaters is estimated to have surpassed ₹1,000 Crore in 2021

Porters' Five Force Analysis



➤ Comparison of Accounting Ratios

| Particulars | For the financial year ended March 31 | | |
|---|---------------------------------------|---------|---------|
| | 2023 | 2022 | 2021 |
| Revenue from operations (₹ in million) | 2,694.61 | 2408.00 | 1447.74 |
| Total number of customers served (Nos.) | 723 | 606.00 | 538.00 |
| Total capacity utilization (%) | 83.2% | 90.4% | 71.0% |
| Exports revenue as % of revenue from operations (%) | 80.60% | 85% | 80.90% |
| Foreign currency gain / (loss) (₹ in million) | 53.13 | 32.37 | 19.21 |
| EBITDA (₹ in million) | 540.33 | 466.92 | 223.35 |
| EBIT (₹ in million) | 488.14 | 425.08 | 185.57 |
| EBITDA margin (%) | 20.05% | 19.39% | 15.43% |
| Profit after tax for the period (₹ in million) | 301.52 | 275.06 | 60.11 |
| Net profit margin (%) | 11.19% | 11.41% | 4.15% |
| Net worth (₹ in million) | 1140.93 | 862.23 | 587.17 |
| Return on capital employed (%) | 31.91% | 36.29% | 17.13% |
| Return on equity (%) | 26.43% | 31.90% | 10.24% |
| Debt to equity ratio (times) | 0.39 | 0.45 | 0.9 |
| Fixed asset turnover ratio (times) | 4.85 | 5.26 | 3.37 |

Key Risk:

- They export their products to various countries and the export operations of their company contribute more than 80% of Revenue from Operations, out of which export to USA constitutes 28% and 32% of the revenue from operations for the Fiscals March 31, 2023, and March 31, 2022. Because of the aforesaid, they may be subject to significant import duties or restrictions of the relevant jurisdictions. Their inability to comply with related requirements may have an adverse effect on their business and results of operations.
- Company in the usual course of business do not enter into long-term contracts with suppliers for their raw materials They are dependent on China for a significant portion of raw material suppliers, loss of any major suppliers increase in the cost of raw material by any supplier, or a shortfall in the availability or quality of such raw materials, in a timely manner or at all, or their ability to pass these costs onto their customers could have an adverse effect on their business and results of operations.
- Company requires significant amounts of working capital and significant portion of their working capital is consumed in trade receivables and inventories. Their inability to meet working capital requirements including failure to realise receivables and inventories may have an adverse effect on their results of operations and overall business.
- Company derives revenue from sale of number of products viz. sale of stainless steel corrugated flexible hoses (with and without braiding), stainless steel braiding, stainless steel interlock hoses, assemblies, and others and significant revenue from stainless steel corrugated flexible hoses (with and without braiding). Any decrease in the sales of their key products will adversely affect their business, cash flows, financial condition, and results of operations. Their inability to diversify their products successfully further may adversely affect their growth and negatively impact their profitability.
- Company in the usual course of business do not have long term contracts with most of their customers and rely on purchase orders for delivery of their product and they may cancel or modify their orders, change production quantities, delay production, or change their sourcing strategy. Loss of one or more of their customers or a reduction in their demand for their products could adversely affect their business, results of operations and financial condition.
- The industry segments in which they operate being fragmented and diversified, they face competition from other large and small global and domestic players, which may affect their business operations and financial conditions.
- Funding requirements and proposed deployment of the Net Proceeds are based on management estimates, and they have not entered any definitive arrangements to utilize certain portions of the Net Proceeds of the Issue and have not been independently appraised by a bank or a financial institution Any variation in the utilisation of the Net Proceeds would be subject to certain compliance requirements, including prior shareholders' approval.
- If the products they manufacture are found to be deficient, they may lose their customers and may be subject to product liability claims or claims alleging deficiency which may also cause damage to their reputation and/or adversely affect their results of operations and financial condition.
- Company depends on third parties for the supply of raw material and delivery of products. A disruption in the supply of raw materials or failure of their suppliers to meet their obligations could impact their production and increase their costs.
- They have experienced negative cash flows in the recent past, and they may have negative cash flows in the future.

Valuation:

Aeroflex Industries Ltd is a global flexible flow solutions provider operating in addressable market, catering to diverse industry segments with Export oriented business model and Primary manufacturer of flexible flow solutions (Make in India with no listed peers with advance manufacturing facility and R&D infrastructure).

At the upper price band company is valuing at P/E of 46x FY23 earnings with a market cap of ₹ 13,966 million post issue of equity shares and return on capital employed of 31.91%.

We believe that issue is fairly priced and recommend “**Subscribe – Long Term**” rating to the IPO.

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|--|------|--------|----------|
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