

AEROFLEX INDUSTRIES LIMITED

Aeroflex Industries Limited (AIL) incorporated in 1993 specializes in providing environment friendly metallic flexible flow solutions to critical global industries. Acquired by Sat Industries Ltd in April, 2018 AIL's products include a wide range of metallic flexible hoses and assemblies, providing global specialized industries with products conforming to international quality standards

AIL exports to 80+ countries across Asia, Americas, Europe and Africa, through a diversified go-to-market model. More importantly AIL has over 1700 SKUs in its product portfolio and caters to over 700 customers as on date

AIL's product categories include braided hoses, unbraided hoses, solar hoses, gas hoses, vacuum hoses, braiding, interlock hoses, composite hoses, hose assemblies, lancing hose assemblies, jacketed hose assemblies, exhaust connectors, exhaust gas recirculation (EGR) tubes, expansion bellows, compensators and related end fittings

AIL is promoted & is part of the diversified SAT Group since 2018 & is headed by Mr Asad Daud Managing Director & Chairman of AIL & Mr Mustafa Abid Kachwala Wholetime Director of AIL. Mr Asad Daud has over 12 years of experience in the manufacturing industry and has played an instrumental role in expanding the domestic and foreign operations for AIL. Mr Mustafa Kachwala has been associated with AIL since 2010 and was re-designated as the Chief Financial Officer with effect from November 28, 2022 & currently looks after the financial affairs of AIL

AIL is now looking at raising Rs 351 crs (at the upper price band) via a fresh issue & OFS primarily to fund working capital requirements, repayment of debt & investments in inorganic business opportunities and balance for general corporate purposes.

AIL is making a fresh issue of 15000000 shares of Rs 2 each aggregating Rs 162 crs. Also AIL will be making a OFS of 17500000 shares aggregating Rs 189 crs. The net offer to the public is 15000000 shares offered in a price band of Rs 102-108 per share. 52.50 lac shares to retail, 22.50 lac shares to the Non-Institutional HNI category & 75 lacs share to QIBs. The shares will be listed on the stock exchanges being BSE Limited & National Stock Exchange of India Limited (NSE Limited)

Issue opens on 22-08-2023

Issue closes on 24-08-2023

Exp date of Listing – 1st Sept 2023

Listing – BSE & NSE

Price band ₹ 102-108

Issue Size ₹ 351 Crs

Face Value ₹ 2/-

Fresh Shares Offered – 15000000 shares of FV of Rs 2 at price band of Rs 102-108

OFS – 17500000 shares of FV of Rs 2 at a price band of Rs 102-108

QIB – 75 lac equity shares of FV of Rs 2 at a price band of Rs 102 - 108

Retail Portion 52.50 lacs Equity Shares of FV of Rs 2 each at a price band of Rs 102-108

HNI/NII 22.50 lacs Equity Shares of FV of Rs 2 each at a price band of Rs 102-108

BRLMs: Pantomath Capital Advisors Private Limited

Promoter & Business Profile of AIL

Aeroflex Industries Limited promoter i.e., Sat Industries Ltd, has a track record of scaling up of multiple diverse businesses backed by acquisition led strategy. Since acquisition of Aeroflex Industries Ltd in 2018, the promoter has been contributing significantly to determining their strategic direction and future growth path. Currently, Sat Industries Ltd is the sole Promoter of the company and holds 96,681,833 Equity Shares of face value ₹2/- each constituting 84.57% of pre - offer issued, subscribed and paid-up equity share capital of the company

Business Profile –

AIL is the manufacturer and supplier of environment friendly metallic flexible flow solution products catering to global as well as domestic markets. 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. AIL's capabilities include providing customized solutions to tap the flexible flow solutions value chain.

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AIL offers a range of metallic flexible corrugated hoses with diameters starting from ¼ inch to 14 inches. The company's solutions are capable to handle varied environmental and work conditions and are designed to handle temperatures levels from negative 196 degrees Celsius to 982 degrees Celsius and pressure handling capacity of upto 300 bars.

AIL's product portfolio comprises of Stainless Steel Corrugated Flexible Hoses (with and without braiding), SS Braiding, Interlock Hoses and Assemblies catering to a diverse range of end user industries, including steel, oil and gas fire sprinklers, refineries aerospace & defense, fire sprinklers & fire fighting, metals & mining, solar and other flexible flow solution, for flow of all forms of substances including air, liquid and solid.

As on March 31, 2023, AIL had more than 1,700 Product SKUs (Stock Keeping Units) in their product portfolio. AIL has recently also developed products made of bronze as well. Its products replace flow solutions made of rubber and polymers

Despite being highly durable over other non-metallic materials for constant flow of substances, AIL's 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 of time as per the customers' policies or applicable regulatory requirements.

These make company's solutions an integral part of the lifecycle of an industrial ecosystem and create continuous demand for their products. Their SS flow solutions are meant to work for a specific lifespan specified by their customers which generates significant replacement demand for their products from existing customers

Company's flexible flow solutions made with stainless steel corrugation conform to BS 6501 Part 1, ISO 10380 and PED CE and are manufactured as per type A, B, and C flexibility. In addition to certifications, ALL's customers - the Original Equipment Manufacturers (OEMs), who use their products as a component in their own end products, perform detailed evaluation procedures on their product quality, processes, manufacturing facility and operations before approving them as their supplier. The stringent customer protocols act as a natural quality benchmarking and at the same time poses meaningful trade barriers

Aeroflex offers customised flexible flow solutions to the critical industrial eco-system –

Stainless Steel Corrugated Flexible Hoses -



Stainless Steel Braiding -



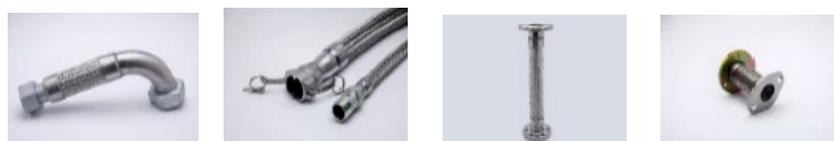
Stainless Steel Interlock Hoses -



Stainless Steel Interlock Hoses -



Assemblies & Fittings -



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. 2 types of corrugation – annular or helical is applied. Corrugations are formed through one of two processes: hydro-formed or mechanically formed.

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

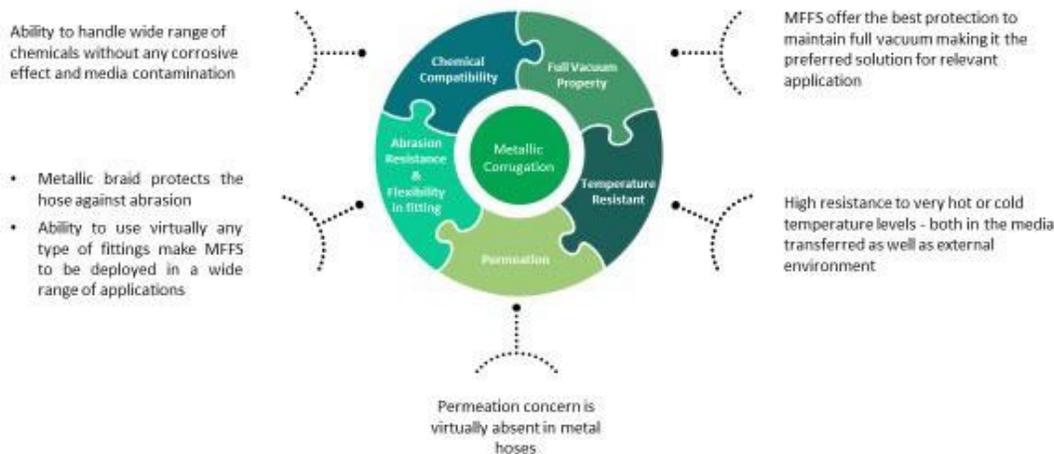
Interlock hoses are helically coiled metallic strip that is mechanically locked with the adjacent edges folded together to form interlocked convolutions (two profiled lock sections). They are used in medium pressure applications and can also be used as an outer jacket for insulated pipelines

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

Advantages of metallic flexible flow solutions over conventional flow solutions

Metallic flow solutions offer numerous advantages over conventional rubber and polymer based solutions



A typical product approval process for AIL's products is as follows –

Certification - 3 to 12 months and includes Application for certifications, Audit and document collection by agencies & Approval and receipt of certification

Client Onboarding - 2-3 months - Approaching the target Customer, Understanding of requirements and working environment & Signing NDA /confidentiality agreement, as applicable

Product Validation & Customer Approval – 2-4 months - Development of Samples, Testing of samples by customer before approval & work on customer feedback and receipt of final approval

Customer Agreement & Commercial Production - 1-2 months - Signing of Supply Contracts or receipt of Purchase Order, as applicable & Production Planning

Due to the long approval process, customers typically avoid changing the suppliers as suppliers are selected after careful evaluation and customers tend to develop long term relationships with them

There is no listed company in India which is engaged in the business similar to that of AIL. However, globally there are 2 companies in the international markets which are engaged in business line similar to AIL. These include Parker-Hannifin Corporation and Senior PLC

At present AIL has a capacity of 11 million metres per annum which is expected to increase to 13.5 million metres by FY24. This expansion will cost Rs 48 crs and is already ongoing at present.

By FY25 the capacity will increase to 15.50 million metres and will also include a robotic lines which will further boost the productivity levels and envisage a capex of Rs 125 crs.

At present as on FY23, out of the total sales revenues of Rs 260.53 crs, Hoses accounted for Rs 169.30 crs (65% of revenues), Assemblies & Fittings Rs 79.26 crs (30% of revenues), Braiding Rs 10.60 crs (4% of revenues) & other products Rs 1.37 crs (1% of revenues)

A notable feature of AIL's product mix has been that Assemblies & Fittings share has increased from Rs 33.94 crs (23% of revenues) to Rs 79.26 crs (30% of revenues) in last 3 years between FY21 to FY23.

Typically, EBIDTA margins in Assemblies & Components which are ready to fit components for customers are around 25 to 30% while for Hoses in meters form are around 15%. This is the key reason that AIL's EBIDTA margins have improved from 15.43% in FY21 have further improved by 462 bp to 20.05% in FY23

Going ahead AIL plans to take the Assembly & Components share in revenue to around 80% in the next 3 years and is looking at EBIDTA margins of 27-28%

Aeroflex products enjoy diverse applications in many sectors like –



Oil & Gas



Steel & Metals



Solar & Hydrogen



Fire Sprinklers



Semiconductors



Chemicals



Electric Mobility



Aerospace



Robotics



Petrochemicals



Aviation



Jet Engines



Formula Car Engine



Sea Ports



Paper/Pulp



Fertilizers

Aeroflex enjoys a marquee customer base which includes –



Few products currently under research and development/planned in near to medium term –**Product Category****Description**

Braided braiding - Made of stainless steel for superior strengths suitable for high pressure applications lance/loading unloading

Large diameter hoses - For applications including ship loading/unloading

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 - Hose for Highly corrosive environment. shipping and sub-marine

Complex Turbine Assemblies with precise welding at tube bending angle - Hose Assemblies with high precision for higher pressure application

Windmill Assemblies - Oil cooling Hoses

Railways Assemblies - Complex & Short Assemblies for hydraulic & HVAC, Cable conduit application

Aviation Assemblies - Engine cooling hose

Semiconductor Assemblies - The Hoses Series A101 / 400 are use in semi conduction application

Cryogenic Application - Assemblies Hose assemblies with copper /brass Cryogenic fittings used for Oxygen, Argon, Nitrogen Loading & unloading

Super insulation vacuum hose assemblies - Hose Assemblies with Supper insulation & vacuum insulation for Cryogenic application such as LNG transfer

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 Boiler hoses assemblies

Specific Hose made for Higher heat transfer rate (helically wound along the boiler setup for cooling)

Globally & Domestically the Flexible Flow Solutions Industry Potential going ahead looks strong –

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

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

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 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 in 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

Traditional user segments for Flexible Flow Solutions made with Stainless Steel Corrugation comprise of manufacturing plants in chemicals, petrochemicals, pharmaceuticals, food & beverage, steel manufacturing, and pulp & paper, among others. It is also widely used in power plants, as well as oil & gas exploration and production sector. Its application in residential and commercial segment is majorly driven by the HVAC Systems Thus, demand for Flexible Flow Solutions made with Stainless Steel Corrugation is closely linked to the demand scenario and capex plans prevalent in its end-user industries as well as overall industrial sector performance

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 offer good resistance to high-pressure and high-temperature and so is widely used in refineries, pipelines, storage capacity, gas terminals, and retail outlets

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 130 million tons per annum in CY 2022, growing by 5.5% over 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 FY2014 to reach nearly 155 million tonnes in FY2022

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

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 tank. 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

Flexible Flow Solutions made with Stainless Steel Corrugation are finding increasing application in city gas distribution network which is one of the fastest growing end-user segments of natural gas infrastructure.

In India, CGD sales were dominated by the CNG (Compressed Natural Gas) segment, owing to stringent environmental regulations and rapidly growing penetration of CNG fitted vehicles in India. It is predominantly used as auto-fuel and is CNG is economical and eco-friendly than conventional liquid auto fuels.

Another area which finds its application is Piped Natural Gas (PNG). PNG is used in domestic, commercial, and Industrial segments. Natural Gas termed as PNG when it is supplied through an integrated network of Steel and PE (Polyethylene) pipeline to end consumers

AIL being a leading player in Flexible Flow Solutions is hence placed strongly positioned via its wide product mix, strong engineering skillful base & its acceptability & track record till date with customers

AIL's Key Competitive Strengths

- **Experienced Management Team** – The company's management team led by Mr Asad Daud Managing Director & Chairman of AIL & Mr Mustafa Abid Kachwala Wholetime Director have rich experience in the industry in which it is operating and have been responsible for the growth of its operations and financial performance. They also have adequate experience in the line of business undertaken by the Company for its strategic and day-to-day business operations.
- **Scalable Business Model** – AIL enjoys a business model which is scalable. The biggest positive AIL enjoys is that it is a fully Indian-grown integrated Flexible Flow solutions player which operates across diverse sectors like Oil & Gas, Refineries, Steel, Fire Sprinklers, Petrochemicals, Aviation, EVs, Semiconductors, Solar applications catering to diverse set of customers
- AIL enjoys marquee customers some of them like ONGC, Areclor Mittal, HAL, Victaulic USA, ISRO, Tata Steel, Indian Oil, Linde, SAIL, Thyssenkrupp, Flex Pression, Bridgestone, DICSA, Hydraquip, Radcoflex etc
- Given the critical nature of the applications, AIL's solutions are subject to, and measured against quality standards 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
- AIL exports to 80+ countries across Asia, Americas, Europe and Africa, through a diversified go-to-market model. More importantly AIL has over 1700 SKUs in its product portfolio and caters to over 700 customers as on date
- Most importantly the biggest competitive moat AIL enjoys is that it runs a monopolistic business with no local competition. Also typically replacement sales are typically very profitable & where AIL enjoys a long customer cycle ranging between 10 years and above

31st March (₹) Cr.	FY21	FY22	FY23	Q1FY24	Q1FY23	Growth %
Total Revenue	144.77	240.8	269.95	82.93	70.35	17.88
EBIDTA	22.37	46.76	54.03	17.3	13.16	31.46
EBIDTA %	15.45	19.42	20.01	20.86	18.71	
PBT	8.04	36.86	41.2			
Profit After Tax	6.01	27.5	30.15	11.09	8.55	29.71
EPS Rs	0.53	2.41	2.64			
Shareholders' Funds	58.71	86.22	114.09			

Source - Company

Risks-

- Environmental risks like floods, heavy rainfalls & Cyclones can significantly affect business growth
- Any geo political risks in overseas markets can also impact the company's performance

Our View on This IPO

Aeroflex Industries Limited (AIL) which is tapping the capital market, enjoys a strong track record of ramping up its turnover in the last two years & building strong business relationships with its domestic & global customers across many sectors, which has helped it significantly scale its operations.

AIL is a domestically grown, fully integrated player in the Flexible Flow Solutions market segment and enjoys a strong export market presence, a monopoly status for its products in India and competes with large global players & operates in diverse sectors like Oil & Gas, Refineries, Steel, Fire Sprinklers, Petrochemicals, Aviation, EVs, Semiconductors, Solar applications catering to diverse set of customers and hence we believe that AIL enjoys a business model which is scalable.

Overall, the company is also confident of increasing its export revenues in the next three years, which looks promising. More importantly a notable feature of AIL's product mix has been that Assemblies & Fittings share has increased from Rs 33.94 crs (23% of revenues) to Rs 79.26 crs (30% of revenues) in last 3 years between FY21 to FY23.

Typically, EBIDTA margins in Assemblies & Components which are ready to fit components for customers are around 25 to 30% while for Hoses in meters form are around 15%. This is the key reason that AIL's EBIDTA margins have improved from 15.43% in FY21 have further improved by 462 bp to 20.05% in FY23. Going ahead AIL plans to take the Assembly & Components share in revenue to around 80% in the next 3 years and is looking at EBIDTA margins of 27-28% which makes us believe that AIL is a formidable player with stronger growth prospects ahead

Most importantly the biggest competitive moat AIL enjoys is that it runs a monopolistic business with no local competition. Also typically replacement sales are typically very profitable & where AIL enjoys a long customer cycle ranging between 10 years and above

More importantly, AIL's promoters have significant industry experience and have been instrumental in the company's consistent growth. The management team's combined expertise and experience are also a significant asset going ahead.

We also note that the company has onboarded many prominent HNI investors like Ashish Kacholia, Jagdish Master, Carnelian Structural Shift Fund, Rosy Blue (India) Pvt Ltd & other investors which have subscribed to a Pre IPO issue of 86.95 lac shares aggregating Rs 76.13 crs

We are positive on AIL for the long term as both Globally & India's Flexible Flow Solutions market offers a massive runway for growth over the next 3-5 years ahead. More importantly, the company enjoys marquee customers which makes its positioning very strong & will help it scale up its operations going ahead

After the proposed IPO, the company's net worth will total Rs 273.09 crore; post-IPO, the equity capital will stand at Rs 25.86 crore.

We are confident that Aeroflex Industries Limited will deliver consistent performance and provide an excellent investment opportunity for investors with a long-term horizon.

Hence, we recommend **SUBSCRIBE** for long-term investment