

Business Overview

- Incorporated on October 19, 1993 Aeroflex Industries Limited is a 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.
- The Company is into metallic flexible flow solutions made of Stainless Steel. They have recently developed products made of bronze as well. Their products replace flow solutions made of rubber and polymers.
- The Company exports their products to more than 80 countries including Europe, USA and others. 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.
- They supply their products to a wide spectrum of industries for controlled flow of all forms of substances including air, liquid and solid.
- The Company’s diversified customer base comprises distributors, fabricators, MROs i.e. Maintenance Repair and Operations Companies, Original Equipment Manufacturers (OEMs) and companies operating in a wide range of industries.
- The Company’s revenue from operations grew at a CAGR of 36.43%, their EBITDA grew at a CAGR of 55.54% and their profit after tax grew at a CAGR of 123.97% between Fiscal 2021 and Fiscal 2023.

Products Offerings:

As of March 31,2023, the Company’s product portfolio comprised 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 & defence, fire sprinklers & fire fighting, metals & mining, solar and other flexible flow solution.



Stainless Steel Corrugated Flexible Hoses (With and Without Braiding)



Stainless Steel Braiding

Stainless Steel Interlock Hoses



Assemblies

Issue Details

Fresh Issue of up to [●] Equity Shares aggregating up to ₹1,620 million and Offer for sale of up to 17,500,000 Equity Shares aggregating up ₹[●] million.

Issue size: ₹332 - 351 Cr
No of Shares: 32,500,000
SAT Shareholders Reservation Portion: 500,000 Shares
Face value: ₹2/-

Price band: ₹102 - 108
Bid Lot: 130 shares and in multiples thereon

Post Issue Implied Market Cap:
 ₹1,319 - 1,397 Cr

BRLMs: Pantomath Capital Advisors Private Limited
Registrar: Link Intime India Private Limited

Indicative Timetable

Activity	On or about
Anchor Investor Issue Opens	21-08-2023
Issue Opens	22-08-2023
Issue Closes	24-08-2023
Finalization of Basis of Allotment	29-08-2023
Refunds/ Unblocking ASBA Fund	30-08-2023
Credit of equity shares to DP A/c	31-08-2023
Trading commences	01-09-2023

Listing: BSE & NSE

Issue Break Up

Retail	QIB	NII
35%	50%	15%

Shareholding *

	Pre Issue	Post Issue
Promoters & Promoter Group	91.09%	66.99%
Public - Other	8.91%	33.01%
Total	100.00%	100.00%

*Calculated using data in RHP on pages - 1, 31 & 90.

Competitive Strengths

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

The Company's manufacturing facility and certified processes, their global footprint and exposure in over 80 countries, their track record of commercialising and scaling up new products and their research and development capabilities, position them advantageously to capture requirements of diverse end user industrial sectors. Their flexible flow solutions find applications in diverse industrial segments across the globe. They believe 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 the 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, they 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. From Fiscal 2021 to fiscal 2023, they have added 8 new countries in the exports markets. For the Fiscal 2023, they served 217 customers in 51 countries. Their capabilities to manufacture diverse range of products alongwith quality consistency have been key in establishing global markets. To serve their export markets better and on real time basis, the Company has incorporated a wholly owned subsidiary in the United Kingdom (UK) in the name of "Aeroflex Industries Limited" in 2019.

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

The Company is 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 customised 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 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.

High entry and exit barriers: Given the critical nature of the applications, the Company's 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 an exit barrier and disincentives any such changes for them also.

Experienced and dedicated senior team across key functions: The Company's senior management team have relevant experience and know-how in the flexible flow solutions industry, across business development, research and development, operations, administration, marketing and human resource management. They also have a dedicated team of engineers along with other skilled workforce. They continuously strengthen their engineering expertise by providing in house training to their workforce, in order to diversify and update their skill sets and keep them updated with the latest changes in manufacturing technologies and processes. Their Promoter i.e. Sat Industries Limited, has track record of scaling up of multiple diverse businesses backed by acquisition led strategy. Since acquisition of the Company in 2018, their Promoter has been contributing significantly in determining their strategic direction and future growth path.

For further details, refer to 'Our Strengths' page 161 onwards of RHP

Business Strategies

Expand their portfolio of solutions to capitalize on large opportunities across industrial segments: The 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. They believe 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. Being the manufacturers of flexible flow solutions, they have been able to serve a diverse range of industries through introducing new products across the flow solutions value chain and they believe that their track record would work as a foundation for commercialisation of new offerings for developed and emerging industrial segments.

Scale up their In-house Design and R&D efforts: The 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 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 customised 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 add further value in their offerings through providing upfront design services to customers, acting as backward integration of their capabilities.

Increase focus on global markets and enhance their international presence: The Company is an export-oriented Company. 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. They intend 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, enables 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 up 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 single roof alongwith timely delivery to their customers at their locations in a cost-efficient manner

Expand their domestic business to leverage the opportunities across industrial segments: Historically, majority of the Company's business has been derived from selling their solutions to the customers in the international markets. They had derived ₹433.45 million, ₹294.28 million and ₹226.16 million constituting to 16.09%, 12.22% and 15.62% of their revenue from operations in the Fiscals ended 2023, 2022 and 2021 respectively from sales in domestic markets. 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 are slated to increase. Given the emerging opportunities offered by the favourable trends and initiatives, they 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 Digitisation and Industry 4.0 initiatives to drive operational efficiencies and achieve synergies: The Company has 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 digitise their operations through implementation of various digital initiatives. They intend to continue to improve their operational efficiencies using variety of technology and digitisation 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.

For further details, refer to 'Our Strategies' page 164 onwards of RHP

Profile of Directors

Asad Daud is the Managing Director and Chairman of the Company. He has over 12 years of experience in the manufacturing industry and has played an instrumental role in expanding the domestic and foreign operations of the Company. He's involved in bringing about innovation in the operations and products of the Company. His input has helped the Company to diversify its operations and activities.

Mustafa Abid Kachwala is the Whole-time Director of the Company. He has worked with Akbarallys Pharma Vet Division in Mumbai from 1986 to 2004 before joining Aeroflex Industries Limited. He has been associated with the Company since 2010 and was re-designated as the Chief Financial Officer with effect from November 28, 2022. He currently looks after the financial affairs of the Company.

Ramesh Chandra Soni is the Independent Director of the Company. He is a practicing chartered accountant and has experience of over 35 years in the fields on accounts, finance, taxation and banking.

Harikant Ganeshlal Turgalia is the Non-Executive Director of the Company. He brings to the Company 30 years of management administration experience. He was associated with their Promoter since 2001 and he was responsible for handling the financial aspects.

Shilpa Bhatia is the Independent Director of the Company. She is a practicing advocate in Hon'ble High Court of Bombay and has over 20 years of experience.

Partha Sarathi Sarkar is the Independent Director of the Company. He started his career with Unilever in Mumbai and subsequently joined the Tata Administrative Services, where he served for over two decades in various capacities in several Tata companies. He worked directly with Ratan Tata in Tata Industries to develop the first long-term Strategic Plan for the Tata Group in the early 1980s. Later he established several new companies for the Tata Group. He has also offered advisory and consultation services to various firms.

Arpit Khandelwal is the Independent Director of the Company. He has ten years of experience in the field of risk management, corporate laws, indirect taxes and international trade laws.

Given above is the abstract of data on directors seen on page 191 - 192 of the RHP

Object of the Offer

Offer for Sale: Since the Offer is an offer for sale, the Company will not receive any proceeds from the Offer.

Fresh Issue: The Net Proceeds are proposed to be utilized in accordance with the details provided in the following table:

Particulars	Estimated Amount (₹ In Million)
Full or part repayment and/or prepayment of certain outstanding secured borrowings (including foreclosure charges, if any) availed by the Company	320.00
Funding working capital requirements of the Company	840.00
General corporate purposes and Unidentified Inorganic Acquisitions ⁽¹⁾	[•]
Total	[•]

Above data is obtained from page 100 of RHP

⁽¹⁾ To be finalized on determination of the Offer Price and updated in the Prospectus prior to filing with the ROC. In compliance with Regulation 7(2) of the SEBI ICDR Regulations, the amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds of the Offer.

Comparison with peers

There are no listed companies in India that are engaged in a business similar to that of the Company. Therefore, it is not possible to provide an industry comparison in relation to the Company.

Financials (Restated Consolidated):

(₹ in Million unless stated otherwise)

Particulars	As at March 31, 2023	As at March 31, 2022	As at March 31, 2021
Equity Share Capital	228.64	228.64	228.64
Other Equity	912.29	633.59	358.53
Net Worth	1,140.93	862.23	587.17
Total Borrowings	450.06	391.27	530.68
Revenue from Operations	2,694.61	2,408.00	1,447.74
EBITDA	540.33	466.92	223.35
EBITDA Margin	20.05%	19.39%	15.43%
Profit/(Loss) Before Tax	412.08	368.62	80.49
Profit/(Loss) After Tax	301.52	275.06	60.11
PAT Margin	11.19%	11.41%	4.15%
Return on Net worth	26.43%	31.90%	10.24%
Return on Capital Employed	31.91%	36.29%	17.13%
Basic EPS	2.64	2.41	0.53

Above data obtained from pages 30-31, 72-73, & 115-116 of RHP

Notes:

- Net Worth = sum of equity share-capital and other equity as per the Restated Consolidated Financial Information
- Total Borrowings = sum of non-current borrowings and current borrowings.
- Revenue from Operations = Sum of revenue from sale of products and other operating revenue as per the Restated Consolidated Financial Information.
- EBITDA = sum of (i) profit for the period/year, (ii) tax expense, (iii) finance costs, and (iv) depreciation and amortisation expenses, less other income. However, it does not include the impact of extraordinary and exceptional items.
- EBITDA Margin = EBITDA divided by revenue from operations
- PAT Margin = Restated Consolidated Profit for the period/year divided by Total Income
- Return on Net Worth (%) = Restated net profit/(loss) after tax attributable to equity shareholders of the Company / restated net worth for Equity Shareholders of the Company.
- Return on Capital Employed = EBIT divided by Capital Employed.
Capital Employed = Net Worth + Total Borrowing - Cash and cash equivalents available for free use
- Basic earnings per share (₹) = Restated net profit / (loss) available to equity shareholders / weighted average number of Equity Shares during the year.

Pursuant to a resolution passed at the general meeting of shareholders dated February 15, 2023, the Company has approved sub-division of 1 (one) Equity Share of face value of ₹10/- each into 5 (Five) Equity Shares of face value of ₹2/- each. Accordingly, the issued, subscribed and paid-up share capital of the Company was subdivided from 2,28,64,074 equity shares of face value of ₹10 each to 11,43,20,370 equity shares of face value of ₹2 each. The impact of sub-division of shares is retrospectively considered for the computation of earnings share as per the requirement / principles of Ind AS 33, as applicable.

Key Risk Factors

- The Company exports their products to various countries and the export operations of the 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. On account 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.
- The Company in the usual course of business does 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.
- The Company's business is dependent and will continue to depend on their single manufacturing facility, and they are subject to certain risks in that behalf. Any slowdown or shutdown in their manufacturing operations could have an adverse effect on their business, financial condition and results of operations.
- The 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 their working capital requirements including failure to realize receivables and inventories may have an adverse effect on their results of operations and overall business.
- The 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 successfully further diversify their products may adversely affect their growth and negatively impact their profitability.
- The Company in the usual course of business does 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.
- If the Company fails to effectively implement their production schedules, their business and results of operations may be materially and adversely affected.
- The Company's Promoter is involved in a tax proceeding which is currently pending. Any adverse decision in the proceeding may render their Promoter liable to penalty and/or monetary compensation and may adversely affect their business and results of operations.
- The industry segments in which the Company operates 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.
- The Company's funding requirements and proposed deployment of the Net Proceeds are based on management estimates and they have not entered into 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 utilization of the Net Proceeds would be subject to certain compliance requirements, including prior shareholders' approval.
- The 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.
- This Red Herring Prospectus contains information from an industry report which the Company has paid for and commissioned from D&B, appointed by the Company pursuant to an engagement letter dated March 22, 2023. There can be no assurance that such third-party statistical, financial and other industry information is either complete or accurate.
- The Company requires a number of approvals, NOCs, licenses, registrations and permits in the ordinary course of their business and the Company requires to renew a number of approvals, licenses, registrations and permits to develop and operate the business and operations and any failure or delay to obtain or renew them in a timely manner may adversely affect their operations and results.

Please read carefully the Risk Factors given in detail in section II (page 37 onwards) of RHP

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Registration details:

JM Financial Services Ltd.

Stock Broker – Registration No. - INZ000195834

Corporate Identity Number: U67120MH1998PLC115415

Registered office Address: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin- 400025.

Tel: (91 22) 6630 3030 |Fax: (91 22) 6630 3223

Corporate office Address: 5th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin- 400025.

Tel: (91 22) 6704 3000/3024 3000 |Fax: (91 22) 6704 3139.