



Aeroflex Industries Ltd. (AIL) are manufacturers and suppliers of environment-friendly metallic flexible flow solution products catering to global as well as domestic markets. 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, 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 operates out of a single manufacturing facility for the manufacture of all of its products located at Taloja, Navi Mumbai in the state of Maharashtra spread across 3,59,528 square feet of area. As of Jan 31 2023, the company reported it has installed production capacity of 1,10,02,389 Mtr with utilised capacity of 76,08,87 Mtr reflecting 69% capacity utilisation. AIL primarily exports its products to more than 80 countries including Europe, USA and others. During FY23, AIL supplied its products to 723 customers.

Investment Rationale:

AIL operating in huge addressable market, catering to diverse industry segments and poised to benefit from mega industrial trends:

- As per the Industry report dated March 29, 2023 global SS flexible hose industry is estimated to be worth \$ 25 Billion in 2020 with the size of SS corrugated hose estimated at \$12.5 Billion which is slated to grow to \$38 Billion and \$18 Billion by 2027.
- The key drivers for AIL's 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 fuelling the demand for SS corrugated hose (industrial hoses).

Expansion of product portfolio of solutions to capitalize on large opportunities across various industrial segments:

- AIL constantly seek to develop and introduce new products and expand its' capabilities to serve diverse industrial segments to enhance market position globally.
- Globally, the market for SS flexible hose is estimated to grow from \$25Bn in 2020 to \$38Bn by 2027 and that for corrugated hose is estimated to grow from \$12.5Bn in 2020 to \$18Bn by 2027.
- AIL developed 55 new products over FY20 to FY23. Currently, products like Braided Braiding, Large diameter hoses, Bronze metal flexible flow solutions, A-704 hoses, Monel hoses, Windmill assemblies, Railways assemblies, Airways assemblies and various other major products are under R&D planned for sales in near to medium term.

Primary Manufacturer of flexible flow solutions with no listed peers with advanced manufacturing facility and R&D infrastructure:

- AIL is the leading manufacturer of metallic flexible flow solutions in the country benefiting from the Make-in-India initiative with an installed capacity of 11 million meters per annum.

Increase R&D efforts and increase in-house designs of products:

- AIL 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 manufacturing processes.
- As AIL grows further, the company intends to further scale up its 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.

Increase focus on global markets:

- AIL is an export-oriented Company and it has exported their products to 51 countries in Fiscal 2023.
- The top 10 countries by export volumes in Fiscal 2023 included USA, UAE, Italy, Spain, Canada, Belgium, Brazil, UK, Russia, and South Africa, among others.
- AIL's ability to deliver flexible flow solutions on a timely basis, enable it to follow the existing customers to newer geographical locations and to establish a presence in such locations.

High entry and exit barriers:

- Given the critical nature of the applications, the company'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.

Valuation and Views: AIL is looking to benefit from: i. Operating in a huge addressable market, ii. Expansion of product portfolio, iii. Monopolistic market leadership in India, iv. High entry and exit barriers, v. Solid R&D investments. The company's total income in FY23 increased by 11.82% YoY to INR 2694.78 million from Rs 2409.92 million in FY22. The company's profit after tax for FY23 increased by 9.62% to INR 301.52 million in FY23 from INR 275.06 million in FY22. In FY23, FY22 and FY21 the company's ROE was 30.54%, 38.19% and 10.79% respectively. The company's ROA was 15.17%, 15.99% and 3.82% respectively in FY23, FY22 and FY21. AIL's Debt to Equity ratio also reduced during the same period to 0.39 in FY23 from 0.45 in FY22 and 0.90 in FY21. At a upper end of the price band the P/E translates to ~46x on FY23 EPS of INR 2.33. We believe the company has scope to grow 25-30% p.a. given the legacy industries are on the cusp of some unprecedented growth combined with strong capex cycle – globally - and the upcoming industries like semi-conductors, renewable energy etc. should also support very strong growth with strong return ratios, we recommend to **subscribe** to the issue.

Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	EBITDA	EBITDA %	PAT	EPS	ROE	ROCE
FY21	1447.74	4.98	223.35	2.67	60.11	2.63	10.79	15.21
FY22	2408.01	66.32	466.92	109.05	275.06	2.41	38.19	36.80
FY23	2694.61	11.90	414.01	-12.78	301.52	2.64	30.54	32.73

Issue Snapshot

Issue Open	22-Aug-23
Issue Close	24-Aug-23
Price Band	102 - 108
Issue Size (Shares)	32500000
Market Cap (cr)	INR 1396 cr

Particulars

Fresh Issue	INR 162 CR
OFS Issue	INR 189 CR
QIB	50%
Non-institutionals	15%
Retail	35%

Capital Structure

Pre Issue Equity	11,43,20,370
Post Issue Equity	12,93,20,370
Bid Lot	130 shares
Minimum Bid amount @ 102	INR 13,590
Maximum Bid amount @ 108	INR 14,940

Share Holding Pattern

	Pre Issue	Post Issue
Promoters	91.09%	66.99%
Public	8.91%	33.01%

Particulars

Face Value	INR 2
Book Value	INR34.28
EPS, Diluted	INR2.33

Objects of the Issue

- Repayment of borrowings
- Funding working capital requirements
- General corporate purposes and unidentified inorganic acquisitions

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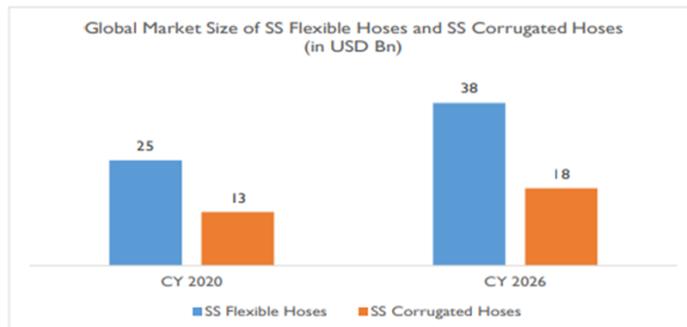
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Incorporated in 1993, Aeroflex Industries Ltd. (AIL) are manufacturers and suppliers of environment friendly metallic flexible flow solution products catering to global as well as domestic markets. Flexible flow solutions play a critical role in transfer of all 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 speciality is to provide solutions upto the customized level to tap to flexible flow solutions value chain. 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. 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, 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. The Company is into metallic flexible flow solutions made of Stainless Steel (SS). The Company has also recently developed products made of bronze as well. Its products replace flow solutions made of rubber and polymers. AIL operates out of a single manufacturing facility for the manufacture of all of its' products located at Talaja, Navi Mumbai in the state of Maharashtra spread across 3,59,528 square feet of area. As of Jan 31 2023 the company reported it has installed production capacity of 1,10,02,389 Mtr with utilised capacity of 76,08,87 Mtr reflecting 69% capacity utilisation. AIL primarily exports its products to more than 80 countries including Europe, USA and others. AIL's exports contributed to 80.85%, 84.53%, 80.90% and 74.74% of its revenue from operations, for FY23, FY22, FY21 and FY20 respectively. Their products are supplied to a wide spectrum of industries for controlled flow of all forms of substances including air, liquid and solid. During FY23, AIL supplied their products to 723 customers.

Investment Rationale:

AIL operating in huge addressable market, catering to diverse industry segments and poised to benefit from mega industrial trends: As per the Industry report dated March 29, 2023 global SS flexible hose industry is estimated to be worth \$ 25 Billion in 2020 with the size of SS corrugated hose estimated at \$12.5 Billion which is slated to grow to \$38 Billion and \$18 Billion by 2027. The key drivers for AIL's 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 fuelling the demand for SS corrugated hose (industrial hoses). AIL's flexible flow solutions find applications in diverse industrial segments across the globe. We believe that growth of AIL's 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 our solutions are used. Specifically, in sectors like automotive, EV is a segment where demand for flexible flow solutions is going to increase.



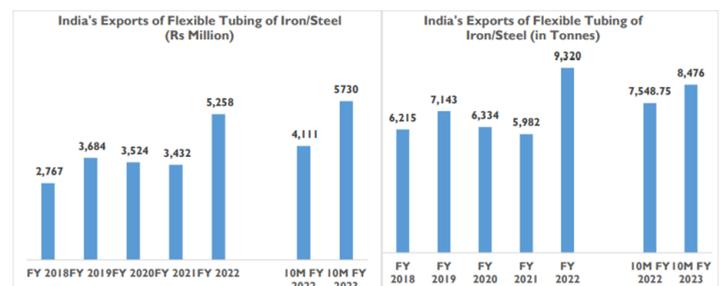
The government targets to achieve EV penetration accounting for 30% in the case of private cars, 70% for commercial vehicles and 80% for two-and three-wheelers by 2030. The expected surge in growth in the sector would happen post-FY25 when the price difference between internal combustion engines and EV is expected to reduce significantly. The EV penetration has been robust in two-wheeler segment which has witnessed sharp 220% CAGR growth between FY18-23 to 668843 units. This growth in EV volumes has resulted in higher demand for Lithium-ion batteries for use in vehicles in which flexible flow solutions are critical components. Demand for lithium-ion batteries is also increasing in renewable energy systems (mainly solar and wind). Solar power is the largest component of RES capacity in India, accounting for nearly 47.5% of total RES installed capacity as on 31st March 2022. Capacity addition in the solar power segment has happened at a brisk pace increasing from just under 1 GW as of 1st April 2012 to nearly 64GW as on 28th Feb 2023. This increase in solar

power generation capacity has ensured a strong demand for BESS, which is an integral part of solar power infrastructure. As a result, the deployment of BESS has traced the staggering growth in Solar generation capacity. Flexible Flow Solutions made with Stainless Steel Corrugation which find application in Li-ion battery cells used thus found a new market segment, which was non-existent nearly a decade back.

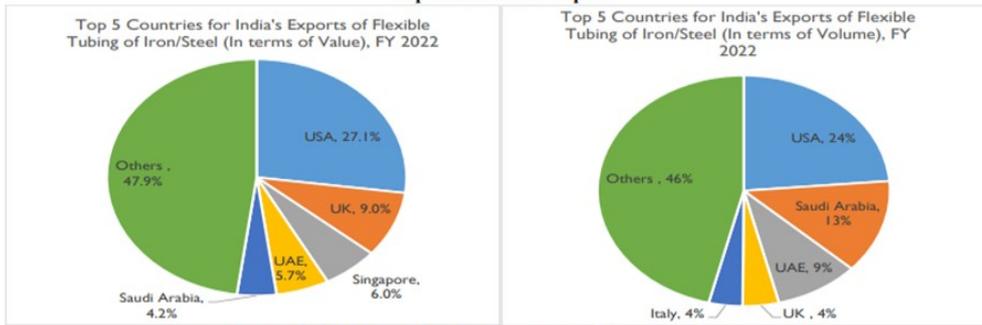
Primary Manufacturer of flexible flow solutions with no listed peers with advanced manufacturing facility and R&D infrastructure: AIL is the leading manufacturer of metallic flexible flow solutions in the country benefiting from the Make-in-India initiative with an installed capacity of 11 million meters per annum. The Company's manufacturing facility, located at Talaja, 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 a range of customized hoses, braiding, assemblies and fittings. It also has 34 mechanical corrugation machines, 20 hydraulic corrugation machines, 4 interlocking machines and 28 braiding machines.

Expansion of product portfolio of solutions to capitalize on large opportunities across various industrial segments: AIL constantly seek to develop and introduce new products and expand its' capabilities to serve diverse industrial segments to enhance market position globally. Globally, the market for SS flexible hose is estimated to grow from \$25Bn in 2020 to \$38Bn by 2027 and that for corrugated hose is estimated to grow from \$12.5Bn in 2020 to \$18Bn by 2027. We believe that expansion of its' solutions portfolio through advanced and complex assemblies and solutions and multi-materials offerings will lead to a further increase in its' operational margin, which was 18.85%, 19.39%, 15.43% and 15.07% for the FY23, FY22 and FY21. AIL developed 55 new products over FY20 to FY23. Currently, products like Braided Braiding, Large diameter hoses, Bronze metal flexible flow solutions, A-704 hoses, Monel hoses, Windmill assemblies, Railways assemblies, Airways assemblies and various other major products are under R&D planned for sales in near to medium term.

Increase R&D efforts and increase in-house designs of products: AIL 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 manufacturing processes. As per AIL's financial report, for the period ended FY23, FY22 and FY21 the company spent INR 19.65 million, INR 16.52 million and INR 12.90 million and INR 11.36 million. respectively, on R&D-related expenses, which formed 0.89%, 0.69%, 0.89% and 0.79 % of its' total revenue from operation in these periods. As AIL grows further, the company intends to further scale up its 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.

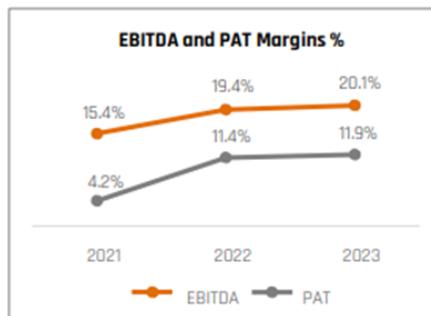


Top Countries for Export

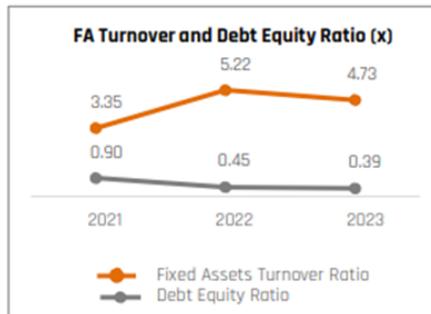
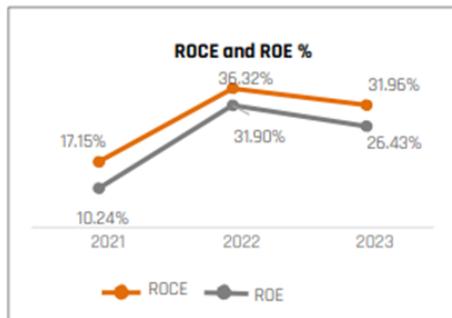


Source: Ministry of Commerce and Industry, Department of Commerce, Government of India

Increase focus on global markets: AIL is an export-oriented Company and it has exported their products to 51 countries in Fiscal 2023. The top 10 countries by export volumes in Fiscal 2023 included USA, UAE, Italy, Spain, Canada, Belgium, Brazil, UK, Russia, South Africa, 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. AIL's ability to deliver flexible flow solutions on a timely basis, enable it to follow the existing customers to newer geographical locations and to establish a presence in such locations.

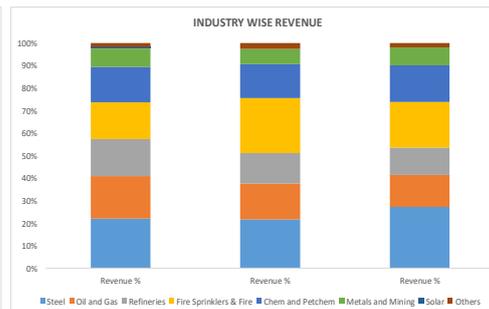
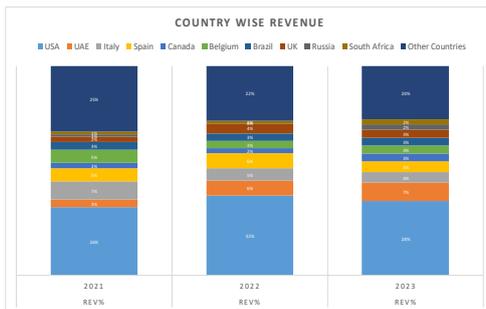


High entry and exit barriers: Given the critical nature of the applications, the company's solutions are subject to, and measured against quality standards (at both the customer level as well as at the regulatory authority level governing the end-user industry) and rigorous product approval systems with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

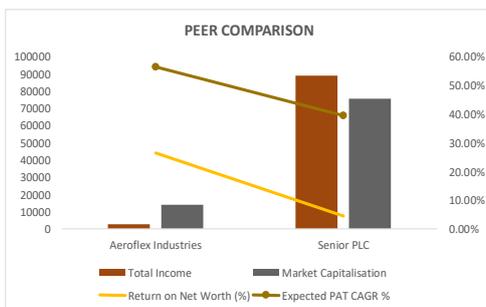


Source: Company RHP, ACMIL Research

Valuation and Views: AIL is looking to benefit from: i. Operating in a huge addressable market, ii. Expansion of product portfolio, iii. Monopolistic market leadership in India, iv. High entry and exit barriers, v. Solid R&D investments. The company's total income in FY23 increased by 11.82% YoY to INR 2694.78 million from Rs 2409.92 million in FY22. The company's profit after tax for FY23 increased by 9.62% to INR 301.52 million in FY23 from INR



275.06 million in FY22. In FY23, FY22 and FY21 the company's ROE was 30.54%, 38.19% and 10.79% respectively. The company's ROA was 15.17%, 15.99% and 3.82% respectively in FY23, FY22 and FY21. AIL's Debt to Equity ratio also reduced during the same period to 0.39 in FY23 from 0.45 in FY22 and 0.90 in FY21. At a higher price band, AIL is commanding a P/E multiple of 46.35x on FY23 EPS of INR 2.33 based on weighted average EPS as per the restated financial info of fresh issue of shares. At a upper end of the price band the P/E translates to ~46x on FY23 EPS of INR 2.33. We believe the company has scope to grow 25-30% p.a. given the legacy industries are on the cusp of some unprecedented growth combined with strong capex cycle – globally - and the upcoming industries like semi-conductors, renewable energy etc. should also support very strong growth with strong return ratios, we recommend to **subscribe** to the issue.



Income Statement			
Y/E (INR mn)	FY21	FY22	FY23
Revenue	1447.74	2408.01	2694.61
Expenses:			
Employee Cost	131.40	175.21	231.51
Total Expenses	1220.91	1937.53	2151.01
EBITDA	223.35	466.92	414.01
EBITDA Growth %	2.67	109.05	-12.78
Interest	92.87	66.08	48.78
Depreciation	37.78	41.84	52.19
Other Income	0.61	1.92	0.17
PBT	80.49	368.62	412.08
PAT	60.11	275.06	301.52
EPS	2.63	2.41	2.64

Balance Sheet			
Y/E (INR mn)	FY21	FY22	FY23
Source of funds			
Equity Share Capital	228.64	228.64	228.64
Reserves	358.53	633.59	912.29
Total Share holders funds	587.17	862.23	1140.93
Current Liabilities	666.99	752.39	789.32
Trade Payables	403.36	341.85	366.31
Total Non-Current Liabilities	352.56	219.74	209.52
Total Debt	530.68	391.27	450.06
Total Liabilities	1606.71	1834.36	2139.77
Application of funds			
Fixed Assets	432.62	461.11	563.17
Capital Work in Progress	2.61	63.50	6.43
Cash and Bank	35.92	83.29	62.53
Other current assets	35.92	83.29	62.53
Inventory	343.20	358.21	560.07
Sundry Debtors	337.80	526.12	669.70
Total Assets	1606.71	1834.36	2139.77

Cash Flow			
Y/E (INR MN)	FY21	FY22	FY23
PBT	80.49	368.62	412.08
Add: Depreciation	52.19	41.84	37.78
Less: Provision for taxation	0	83.27	108.37
Add: Interest Paid	84.63	56.79	29.92
Less: Other Paid	99.02	39.2	15.43
Change in working capital	2.59	-6.57	-318.1
Cash Flow from Operations (a)	120.88	320.63	37.88
Change in Fixed Assets	-29.09	-133.85	-94.56
Cash Flow from Investing Activities (b)	-29.09	-133.85	-94.56
Debt raised/repaid	-103.87	-139.41	58.79
Dividend paid	0.00	0.00	-22.86
Cash Flow from financing activities (c)	-103.87	-139.41	35.92
Net Change in Cash (a+b+c)	-12.08	47.37	-20.76
Opening Cash	48.00	35.92	83.29
Closing Cash	35.92	83.29	62.53

Key Ratios			
Y/E (INR cr)	FY21	FY22	FY23
Growth Ratio			
Net Sales Growth(%)	0.30	66.33	11.90
EBITDA Growth(%)	0.39	107.70	15.11
PAT Growth(%)	28.11	357.59	9.62
Margin Ratios			
Gross Profit	35.38	35.08	36.79
PBIDTM	15.71	19.56	20.13
EBITM	11.97	18.00	17.06
PBT	5.56	15.26	15.25
PAT	4.15	11.39	11.16
Return Ratios			
ROA	3.82	15.99	15.17
ROE	10.79	38.19	30.54
ROCE	15.21	36.80	32.73
Turnover Ratios			
Asset Turnover(x)	0.92	1.40	1.36
Inventory Turnover(x)	4.38	6.89	5.88
Debtors Turnover(x)	4.66	5.59	4.52
Fixed Asset Turnover (x)	1.39	2.21	2.25
Solvency Ratios			
Total Debt/Equity(x)	0.90	0.46	0.40
Current Ratio(x)	1.73	1.71	1.96
Quick Ratio(x)	1.22	1.24	1.25
Interest Cover(x)	1.87	6.58	9.45

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Analyst holding in stock: **NO**

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