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| Retail Research | IPO Note |
| Sector: Metallic Flexible Flow Solutions | Price Band (Rs): 102 - 108 |
| 21st August 2023 | Recommendation: Subscribe for long term Horizon |

Aeroflex Industries Limited

Company Overview:

Incorporated in 1993, Aeroflex Industries Ltd is a part of SAT Group since 2018. The company manufactures and supplies environment-friendly metallic flexible flow solution products. Their product list includes 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. They supply products to a wide spectrum of industries for the controlled flow of all substances, including air, liquid and solid. As on 31st Mar'23, the company has more than 1,700 Product SKUs (Stock Keeping Units) in their product portfolio.

Key Highlights:

Strong Clientele: The company has a strong domestic presence with major supplies of its product to Oil & Gas players (IOCL, BPCL, ONGC), Large steel players (TATA Steel etc.) and Aviation Players (HAL etc). They have exported products to more than 80 countries including Europe, USA and others. Some of the major international clients include Victaulic etc. More than 50% hose exported from India are by Aeroflex Industries.

Manufacturing facility: The company's manufacturing facility is located at Taloja, Navi Mumbai, and is spread across 3,59,528 square feet of area. The manufacturing facility is equipped with mechanical and hydraulic corrugation machines, interlocking machines, braiding machines, bobbin machines and assembly equipment.

Quality inspection and assurance: Each product is subject to stringent quality testing and assurance processes before being packed and dispatched to customers. The quality control and assurance team comprise of 25 members. Based on the type of the product, the testing and quality team performs various tests on the finished products including Leakage Test, Ultrasonic Test, Vacuum Test, Leak Tightness Test, Pressure Resistance Test, Elongation Test, Burst Test, Pliable or Static Bend Test, Fatigue Tests or U-Bend Test, Cantilever Bend Test, Electrical Conductivity Test and Non-Volatile Residue Test. All these tests confirm to the requirements and standards of ISO 10380:2012

Strong R&D team: The company have an in-house Design, Research and Development team of 7 members which assists in designing the products based on the technical specifications received from the customers, conducts research on existing and new materials, production processes improvement, emerging product types and end applications and develop new products.

Valuation:

At CMP, the company is valued at a PE multiple of 46.3x based on its FY23 earnings at the upper price band on post-issue capital. The company don't have any listed peer in India. The company has a unique business model in the Flexible Flow solution area. With decent return ratios and margins, the risk reward ratio for long term investors looks favourable. The investors can subscribe to the IPO for a long-term investment perspective.

| Issue Details | |
|-------------------------------|--|
| Date of Opening | 22 nd August 23 |
| Date of Closing | 24 th August 23 |
| Price Band (Rs) | 102 – 108 |
| Issue Size (Rs cr) | 340 – 351 |
| No. of shares | 3,33,82,353 – 3,25,00,000 |
| Face Value (Rs) | 2 |
| Post Issue Market Cap (Rs cr) | 1,328 – 1,396 |
| BRLMs | Phantom Capital Advisors Private Limited |
| Registrar | Link Intime India Private Limited |
| Bid Lot | 130 shares and in multiple thereof |
| QIB shares | 50% |
| Retail shares | 35% |
| NIB (HNI) shares | 15% |

| Objects of Issue | |
|---|----------|
| | (Rs Cr.) |
| Full or part repayment and/or prepayment of certain outstanding secured borrowings (including foreclosure charges, if any) availed by our Company | 32.0 |
| Funding working capital requirements of our Company | 84.0 |
| General corporate purposes and Unidentified Inorganic Acquisitions* | - |
| Total | - |

* To be finalized on determination of the Offer Price and updated in the Prospectus prior to filing with the ROC.

| Shareholding Pattern | | |
|---------------------------|---------------------|--------------|
| Pre-Issue | No. of Shares | % |
| Promoter & Promoter Group | 10,41,36,663 | 91.1 |
| Public & Others | 1,01,83,707 | 8.9 |
| Total | 11,43,20,370 | 100.0 |

| Post Issue @Lower Price Band | No. of Shares | % |
|------------------------------|---------------------|--------------|
| Promoter & Promoter Group | 8,66,36,663 | 66.5 |
| Public & Others | 4,35,66,060 | 33.5 |
| Total | 13,02,02,723 | 100.0 |

| Post Issue @Upper Price Band | No. of Shares | % |
|------------------------------|---------------------|--------------|
| Promoter & Promoter Group | 8,66,36,663 | 67.0 |
| Public & Others | 4,26,83,707 | 33.0 |
| Total | 12,93,20,370 | 100.0 |

Source: RHP, SSL Research

Risk factors

- The company's export accounts around 80% of the total revenue, out of which export to USA constitutes 28% of the revenue from operation in FY23. The company may be subject to significant import duties or restrictions of the relevant jurisdictions. Any inability to comply with related requirements may have an adverse effect on the business and results of operations.
- Large portion of raw material is imported from China. Loss of any major supplier or 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 the company's ability to pass these costs onto the customers could have an adverse effect on their business and results of operations.
- The company is dependent on a single manufacturing unit. Any slowdown or shutdown in the manufacturing operations could have an adverse effect on the business, financial condition and results of operations.
- The company requires significant amounts of working capital and significant portion of the working capital is consumed in trade receivables and inventories. Any inability to meet the working capital requirements including failure to realise receivables and inventories may have an adverse effect on the results of operations and overall business.

Growth strategy

- Expand their portfolio of solutions to capitalize on large opportunities across industrial segments.
- Scale up their In-house Design and R&D efforts.
- Increase focus on global markets and enhance their international presence.
- Expand their domestic business to leverage the opportunities across industrial segments.
- Focus on Digitisation and Industry 4.0 initiatives to drive operational efficiencies and achieve synergies.

Revenue Break-up (Rs cr)

| Revenue from operation (Rs cr) | FY21 | FY22 | FY23 |
|--------------------------------|--------------|--------------|--------------|
| Sale of Products | | | |
| - Domestic | 22.6 | 29.4 | 43.3 |
| - Export | 117.1 | 203.6 | 217.2 |
| Total (A) | 139.7 | 233.0 | 260.5 |
| Other Operating Income | 0.0 | 0.0 | 0.0 |
| Sale of Scrap | 0.8 | 1.6 | 2.2 |
| Foreign Exchange Fluctuation | 1.9 | 3.2 | 5.3 |
| Other Operating Income | 2.3 | 3.0 | 1.4 |
| Total (B) | 5.0 | 7.8 | 8.9 |
| Total (A+B) | 144.8 | 240.8 | 269.5 |

Source: RHP, SSL Research

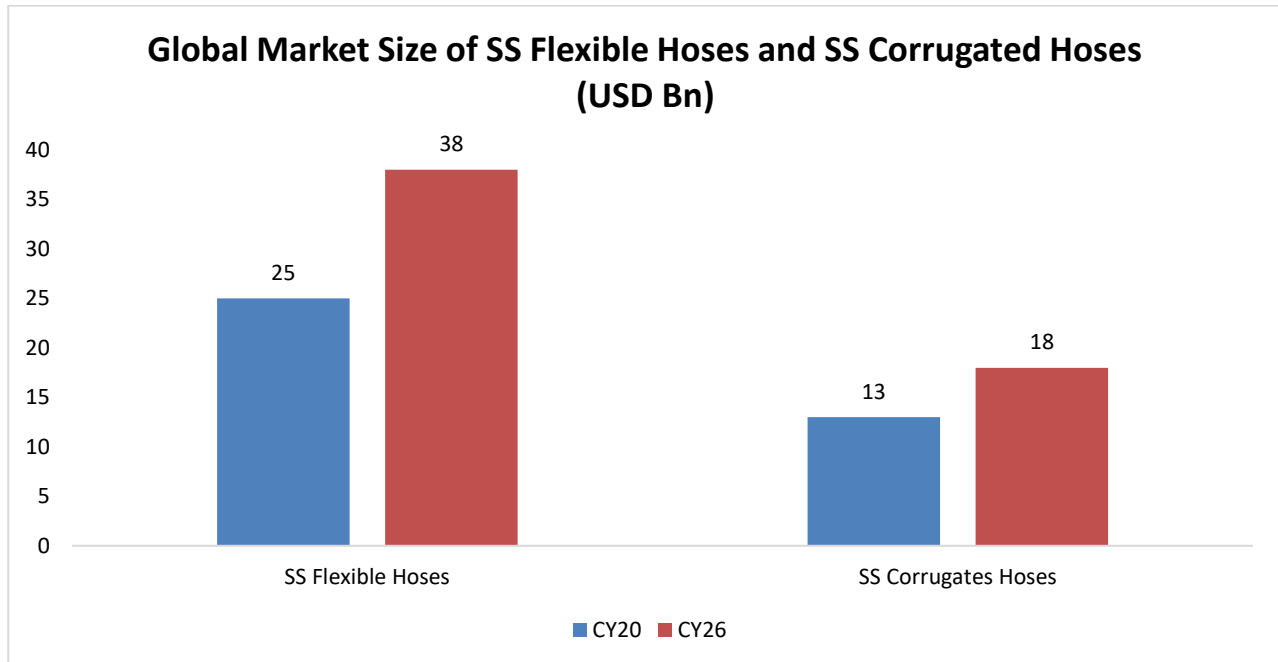
| Revenue from sales of products (Rs cr) | FY21 | FY22 | FY23 |
|--|--------------|--------------|--------------|
| Hoses | 101.0 | 166.5 | 169.3 |
| Assemblies & Fittings | 33.9 | 55.6 | 79.3 |
| Braiding | 3.6 | 5.2 | 10.5 |
| Other Products | 1.2 | 5.7 | 1.4 |
| Total | 139.7 | 233.0 | 260.5 |

Source: RHP, SSL Research

Industry Overview

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).



Source: RHP, SSL Research

Financial Snapshot

| Aeroflex Industries Limited | | | |
|-----------------------------|-----------|------------|---------|
| (Rs. Cr.) | Pre-Issue | Post Issue | |
| | FY22 | FY23 | |
| Particulars | | Price Band | |
| | 108.0 | 102.0 | 108.0 |
| Net Sales | 240.8 | 269.5 | 269.5 |
| Total Income | 241.0 | 269.5 | 269.5 |
| EBIDTA | 46.7 | 54.0 | 54.0 |
| PAT | 27.5 | 30.2 | 30.2 |
| Equity Share Capital | 22.9 | 26.0 | 25.9 |
| No of Equity Shares | 11.4 | 13.0 | 12.9 |
| Face Value | 2.0 | 2.0 | 2.0 |
| EPS | 2.4 | 2.3 | 2.3 |
| CMP | 108.0 | 102.0 | 108.0 |
| Cash and Bank | 8.3 | 168.3 | 168.3 |
| Debt | 39.1 | 45.0 | 45.0 |
| Market Cap | 1,234.7 | 1,328.1 | 1,396.7 |
| BV per share (Rs) | 7.5 | 21.2 | 21.3 |
| PE(x) | 44.9 | 44.0 | 46.3 |
| P/BV (x) | 14.3 | 4.8 | 5.1 |
| Enterprise Value | 1,265.5 | 1,204.8 | 1,273.4 |
| Mcap/Sales (x) | 5.1 | 4.9 | 5.2 |
| EV/Sales (x) | 5.3 | 4.5 | 4.7 |
| EV/EBIDTA (x) | 27.1 | 22.3 | 23.6 |
| EBITDA Margins (%) | 19.4 | 20.1 | 20.1 |
| Net Margins (%) | 11.4 | 11.2 | 11.2 |
| ROE (%) | 38.0 | 16.6 | 16.6 |
| ROCE (%) | 36.0 | 21.9 | 21.9 |
| Debt/Equity | 0.5 | 0.2 | 0.2 |
| Net worth | 86.2 | 276.1 | 276.1 |

Source: RHP, SSL Research (Post Issue)

| Year | FY21 | FY22 | FY23 |
|-----------------------|-------|-------|--------|
| Net Sales | 144.8 | 240.8 | 269.46 |
| EBITDA | 22.3 | 46.7 | 54.0 |
| Net Profit | 6.0 | 27.5 | 30.15 |
| EBITDA Margin (%) | 15.4 | 19.4 | 20.1 |
| Net Profit Margin (%) | 4.2 | 11.4 | 11.2 |

Source: RHP, SSL Research

| | FY21 | FY22 | FY23 |
|-----------------------------|-----------|-----------|------------|
| Debtor's days | 85 | 80 | 91 |
| Inventory days | 134 | 84 | 120 |
| Creditor's days | 157 | 80 | 79 |
| Working Capital Days | 62 | 84 | 132 |

Source: RHP, SSL Research

| | FY21 | FY22 | FY23 |
|-------------------------------------|------------|-------------|--------------|
| Cash flow from Operating Activities | 12.1 | 32.1 | 3.8 |
| Cash flow from Investing Activities | (2.9) | (13.4) | (9.5) |
| Cash flow from Financing Activities | (10.4) | (13.9) | 3.6 |
| Free Cash Flow | 9.2 | 18.7 | (5.7) |

Source: RHP, SSL Research

Peer Comparison

| Company | CMP (Rs) | Market Cap (Rs in cr) | Total Income (Rs in cr) | PAT (Rs in cr) | PAT % | RONW % | P/E (x) |
|-------------------------------|----------|-----------------------|-------------------------|----------------|-------|--------|---------|
| Aeroflex Industries Limited | 108 | 698 | 270 | 30 | 11.2 | 16.6 | 23.2 |
| Parker - Hannifin Corporation | 34,845 | 4,47,056 | 1,56,335 | 17,080 | 10.9 | 20.2 | 26.2 |
| Senior PLC | 173 | 7,278 | 8,569 | 204 | 2.4 | 4.5 | 35.7 |

(Source: RHP, SSL Research)

The data is based on FY23 financial data, for Aeroflex Industries Ltd the data is calculated on Post issue equity share capital.

Numbers for Parker-Hannifin is for the year ended June 30, 2023, Senior PLC is for the year ended December 31, 2022.

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