

Company Overview

Aeroflex Industries Ltd. (AIL), a subsidiary of SAT Industries Ltd., is engaged in the business of manufacturing and supplying metallic flexible flow solution products which 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. The company's flexible flow solutions are made with stainless steel corrugation conforming to BS 6501 Part 1, ISO 10380, and PED CE with diameter sizes ranging from 0.25 inch to 14 inches and designed to handle temperatures levels from negative 196 degrees celsius to 982 degrees celsius and pressure handling capacity of up to 300 bars. The business product offerings (1,700+ SKUs) enable the flow of all forms of substances - air, liquids and solids and cater to a wide range of end-user industries like steel, oil and gas, refineries, fire sprinklers & fire fighting, chemicals & petrochemicals, metals & mining, solar and other industries. The company has a manufacturing facility located at Taloja, Maharashtra. As of March 31st 2023, the export side of the business contributed to 80.6% of the revenue from operations, by serving 217 customers across 51 countries. The remaining business was domestically driven which catered to 506 customers in FY23.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Full or part repayment and/or prepayment of certain outstanding secured borrowings (including foreclosure charges, if any) availed by the company.
- ⇒ Funding working capital requirements of the company.
- ⇒ General corporate purposes and unidentified inorganic acquisitions.

Investment Rationale

High entry and exit barriers with no listed peers

AIL's customer base includes distributors, fabricators, maintenance repair and operations companies (MROs), and original equipment manufacturers (OEMs). OEMs are subject to tighter regulatory and industry standards with any change in the vendor of the product requiring significant time and expense on their part. This places companies like AIL in a favorable spot and creating an effective exit barrier for the industry. The company provides customized solutions to its customers as per the design and specifications provided by them through its manufacturing facility located in Taloja, Maharashtra which has an installed capacity of 11 million meters per annum. As on 31st March 2023, the company's design and R&D team had a pipeline of 57 products under various phases. Going forward, the business aims to develop its design capabilities to offer upfront design services to customers as well which will further enhance its customer service and allow it to tap into a larger value chain of the flow solutions. Thus, the company's continuous focus on R&D and sound manufacturing infrastructure has enabled it to meet the high volume demands of its customers, leading to high entry barriers for smaller firms.

Diversifying customer offerings, with an increasing focus on international expansion

The company is involved in developing and manufacturing flexible flow solutions made with stainless steel of various grades. Moving ahead, the business aims to further strengthen its domestic and global market positioning by foraying into flexible flow solutions made with other high-end materials which include bronze, polytetrafluoroethylene, haste alloy, inconel, and monel. This will not only aid in increasing its customer base but also in optimizing its operating margins on the way ahead. On the international front, the business aims to expand its presence into geographies such as the USA, Europe, Far East Region, and the Middle East and North Africa (MENA) region by opening up warehouses, distribution centers, and business development offices. The company incorporated "Aeroflex Industries Limited" in 2019 as a wholly-owned subsidiary in the United Kingdom (UK) to create a better presence in its export business.

Issue Details

Offer Period	22 nd Aug, 2023 - 24 th Aug, 2023
Price Band	Rs. 102 to Rs. 108
Bid Lot	130
Listing	BSE & NSE
Issue Size (no. of shares in mn)	32.50
Issue Size (Rs. in bn)	3.51
Face Value (Rs.)	2

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Pantomath Capital Advisors Private Ltd.
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Registrar	Link Intime India Private Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	91.09	66.99
Public	8.91	33.01
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138



Aeroflex Industries Ltd.

Valuation & Outlook

The 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. This is expected to expand to USD 38 billion and USD 18 billion, respectively by 2027. The short-term growth is expected to be driven by the traditional industry segments like manufacturing, automotive, oil & gas (Exploring & Refineries), and HVAC system. Meanwhile, the increasing focus on industries with government support like electric vehicles and renewables (increase in solar power generation capacity) and high precision products like semiconductor and robotic applications are poised to drive the long-term growth of the business. A key monitorable for the business remains the low cost of rubber/ polymer hose which is expected to narrow with increasing awareness of stainless steel corrugation. On the financial front, the business has effectively scaled its operational margins to 20.05% in FY23 compared to 15.43% in FY21 and its debt/equity ratio has declined to 0.39x in FY23 as against 0.9x in FY22. **On the upper end of the price band, the issue is valued at a P/E of 41x based on FY23 earnings which we feel is fairly valued given the large headroom for growth. We, therefore, recommend a “Subscribe” rating for the issue.**

Key Risks

- ⇒ The company does not enter into long term contracts with its suppliers and is highly dependent on China for its raw materials.
- ⇒ The company's operations are highly dependent on its top five customers.
- ⇒ The company may be subject to significant import duties or restrictions of the relevant jurisdictions as a significant portion of its revenue is dependent on its export business.

**Aeroflex Industries Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23
Revenue	1,448	2,408	2,695
Revenue from Operations	1,448	2,408	2,695
Total Revenue	1,448	2,408	2,695
Expenses			
Cost of material consumed	945	1,563	1,878
Changes in inventory	(9)	(3)	(178)
Employee benefit expenses	131	175	232
Other expenses	157	205	222
Total Operating Expenses	1,224	1,941	2,154
EBITDA	223	467	540
Depreciation and Amortization expenses	38	42	52
Other income	1	2	0
EBIT	186	427	488
Finance costs	89	63	46
Exceptional Item	16	(4)	31
PBT	80	369	412
Current tax	-	83	102
Short/ (Excess) Provision for Earlier Years	-	(0)	6
Deferred Tax charge/ (credit)	20	10	2
Total tax	20	94	111
PAT	60	275	302
Diluted EPS	0.5	2.4	2.6

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Cash Flow from operating activities	121	321	38
Cash flow from investing activities	(29)	(134)	(95)
Cash flow from financing activities	(104)	(139)	36
Net increase/(decrease) in cash and cash equivalents	(12)	47	(21)
Cash and cash equivalents at the beginning of the period	48	36	83
Cash and cash equivalents at the end of the period	36	83	63

Source: RHP, BP Equities Research



Aeroflex Industries Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Equity and Liabilities			
Equity Share Capital	229	229	229
Other equity	359	634	912
Total Equity	587	862	1,141
Non-Current Liabilities			
Financial Liabilities			
(i) Borrowings	353	210	197
(ii) Other financial liabilities	-	-	-
Provisions	-	-	-
Deferred Tax Liabilities (net)	-	1	3
Other non-current liabilities	9	9	10
Total Non-Current Liabilities	362	220	210
Current Liabilities			
(a) Financial Liabilities			
(i) Borrowings	178	181	253
(ii) Trade Payables			
(A) total outstanding dues of micro enterprises and small enterprises	6	1	88
(B) total outstanding dues of creditors other than micro enterprises and small enterprises	398	341	278
(b) Other current liabilities	86	154	109
(c) Current tax liabilities (Net)	-	75	61
Total Current Liabilities	667	752	789
Total liabilities	1,029	972	999
Total Equity and Liabilities	1,616	1,834	2,140
Assets			
Non-Current Assets			
Property, plant and equipment	430	458	555
Capital work in Progress	-	64	6
Other intangible assets	2	3	8
Intangible assets under development	3	3	-
Financial Assets			
(i) Investments and Loans	-	-	-
(ii) Trade Receivables	-	-	-
(iii) Others	3	0	-
Deferred Tax Assets (Net)	10	-	-
Other non-current assets	14	17	26
Total Non-Current Assets	462	545	595
Current Assets			
Inventories	343	358	560
Financial assets			
(i) Trade receivables	338	526	670
(ii) Cash and cash equivalents	35	82	61
(iii) Bank balances other than cash and cash equivalents	1	1	1
(iv) Others	4	5	6
Current Tax Assets	0	-	-
Other current assets	433	317	246
Total Current Assets	1,154	1,290	1,544
Total Assets	1,616	1,834	2,140

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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