

Aeroflex Industries Limited

About Company

Incorporated in 1993, Aeroflex Industries Limited, previously known as Suyog Intermediates Private Limited, manufactures and supplies environment-friendly metallic flexible flow solution products. The company's 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. As on March 31, 2023, the company recorded more than 1,700 Product SKUs (Stock Keeping Units) in its product portfolio. Aeroflex Industries' manufacturing facility is located at Taloja, Navi Mumbai, Maharashtra, and is spread across 3,59,528 square feet of area. The facility is certified with Annex III, Module H of Directive 97/23/EC on Pressure Equipment, Management System as per ISO 9001:2015, Environmental Management System-ISO 14001:2015, ISO 45001:2015 (Occupational Health & Safety), Testing Certificate-Gas Hoses-1/2" NB Hose Assembly, NABL ISO /IEC 17025:2017, Statement of 153 Conformity for design, manufacturing, and testing of SS corrugated flexible Hose Assembly, Statement of Conformity for Quality Procedures applied standard EN ISO 10380:2012 and BS 6501-1 (E:2004), Certificate of Design Assessment required for quality management systems, environmental management systems, health and safety management systems. The company's clientele includes distributors, fabricators, Maintenance Repair and Operations Companies (MROs), Original Equipment Manufacturers (OEMs), and companies operating in a wide range of industries.

Objects of the Offer:

The company intends to utilize the net proceeds from the issue.

- 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.

SUBSCRIBE

Issue

Open	Close
Tuesday 22-Aug-23	Thursday 24-Aug-23

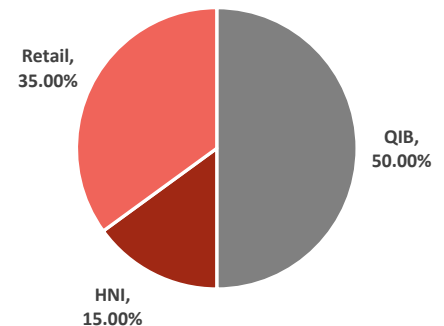
Issue Size

Fresh Issue	162.00 cr
Offer for Sale	189.00 cr
Total Issue	351.00 cr

Per Equity Share

Price Band	Face Value
Rs.102 - Rs108	Rs 2
Minimum Shares	130 Qty

NET OFFER STRUCTURE



Source: Dalal & Broacha Research

Rationale

Diversified Product Portfolio.

The company's 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. As on Mar'23, the company recorded more than 1,700 Product SKUs (Stock Keeping Units) in its product portfolio. The company exports its products to 80+ countries including Europe, the USA, and others. It supplies products to a wide spectrum of industries for the controlled flow of all forms of substances including air, liquid and solid. Flexible flow solutions play a critical role in the transfer of substances (air, liquid and solid) in any industrial or commercial ecosystem, connecting the origin and end points of various processes.

Manufacturing Facility with Multiple Certifications

Its manufacturing facility is located at Taloja, Navi Mumbai, Maharashtra, and is spread across nearly 3.6 lakhs. ft of area. The facility is certified with Annex III, Module H of Directive 97/23/EC on pressure equipment, management system as per ISO 9001:2015, environmental management systems 14001:2015, ISO 45001:2015 (occupational health & safety), testing certificate gas hoses 1/2" NB Hose Assembly, NABL ISO /IEC 17025:2017, statement of 153 conformity for design, manufacturing, and testing of SS corrugated flexible hose assembly, statement of conformity for quality procedures applied standard EN ISO 10380:2012 and BS 6501-1 (E:2004), certificate of design assessment required for quality management systems, environmental management systems, health and safety management systems.

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 as an exit barrier and disincentives any such changes for them also.

Conclusion

Aeroflex Industries Ltd. are 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. Flexible flow solutions play a critical role in the 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 aircraft, fueling and hydraulics in

aircrafts. As on March 31, 2023, we had more than 1,700 Product SKUs (Stock Keeping Units) in our product portfolio.

Aeroflex exports its products to more than 80 countries including Europe, USA and others. For Fiscals 2023, 2022 and 2021 our 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 our revenue from operations respectively. It supplies a wide spectrum of industries for controlled flow of all forms of substances including air, liquid and solid. For the Fiscals March 31, 2023, 2022 and 2021, they served a total of 723, 606 and 538 customers out of which they served 217, 190 and 169 customers across 51, 49 and 43 countries respectively and 506, 416 and 369 domestically.

The company has shown a topline CAGR of 36% from 1447.74 Mn in FY21 to 2694 Mn in FY23. company's ROE has grown from 10.24% to 26.43% from FY21 to FY23 respectively. The company's PAT (profit after tax) has grown almost 5x from 60.11 Mn in FY21 to 301.52 Mn in FY23.

In the short term, the demand for Flexible Flow Solutions made with Stainless Steel Corrugation will be driven by traditional customer segments like process industries (Chemical, pulp & paper industry) & for HVAC systems Capacity expansion and plant modernization across industries & sectors will create further opportunity to replace existing rubber / PTFE / polymer hose with Flexible Flow Solutions made with Stainless Steel. However, the long-term growth will be driven by novel applications in sectors like energy storage (specifically Li-ion batteries), semi-conductor manufacturing, and aviation.

Despite the COVID pandemic, they have managed to steadily grow their top line as well as their bottom line. Their EBITDA margins have increased from ~15% in FY21 to ~20% in FY23. Also, their PAT margins have improved from 4% to 11% during the same period. At the upper price band of Rs 108, it is valued at ~46x FY23 fully diluted earnings. The stock does not seem cheaply priced in the IPO; however, company holds good prospects in terms of a listing gain, thus we give "SUBSCRIBE" rating only for listing gains, In the long term, one needs to be watchful about the company's future earnings' performance & may enter at a more comfortable valuation.

Disclaimer

Sources of the reports taken from: Red Herring Prospectus, Various other websites, etc.

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