

## AEROFLEX INDUSTRIES LTD

22-08-2023 to 24-08-2023

Industry: Stainless Steel Flexible Hoses

Price Band: ₹ 102 -108

Recommendation: Subscribe for Long Term

Post Implied Market Cap: ₹ 1,397 Cr

### Key Data

Issue Size (₹ Cr)	351
Fresh (₹)	162
OFS (₹)	189
No of shares offered	3,25,00,000
Face Value (₹ /share)	2
Bid Lot	130

### About the Company

Aeroflex Industries Ltd manufactures and supplies eco-friendly metallic flexible flow solutions like braided hoses, solar hoses, and more, primarily using Stainless Steel and now bronze. Their products replace rubber and polymer solutions, catering to global and domestic markets. The company Incorporated on October 19, 1993 and now exports to 80+ countries, including Europe and the USA, they serve various industries, ensuring controlled flow of substances (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.

### Investment Rationale

- Catering to diverse industry segments:** Aeroflex Industries Ltd stands as a prominent global player in the flexible flow solutions. With a complete focus on development and manufacturing, the company specializes in crafting metallic flexible corrugated hoses, assemblies, and fittings. Areoflex stands as an essential enabler of efficient material and substance transfer. The applications of its products are vast and varied, influencing numerous industrial sectors worldwide. Aeroflex's commitment to innovation, quality, and adaptability ensures its continued prominence in facilitating the smooth flow of materials within industrial operations on a global scale.
- High Entry Barriers:** Aeroflex products are well placed in a segment which comes with strict quality standards and regulatory scrutiny creating obstacles for new entrants. Rigorous approval processes and design specifications act as entry barriers to new player. Supplying to OEMs comes with stringent industry standards; switching vendors is time-consuming and costly for OEMs, which discourages changes.
- Focus on global markets and enhance their international presence:** The Company is export-focused, delivering products to 51 countries in FY 2023, with major exports to the USA, UAE, Spain, Italy, Canada, and others. 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. They plan to build on their global approach by creating custom flexible flow solutions, expanding geographically, and opening strategic delivery locations in the USA, Europe, Far East, and Middle East and North Africa (MENA) regions. This expansion aims to offer comprehensive solutions under one roof, ensuring timely and cost-effective delivery to customers worldwide.
- Broaden their domestic business to capitalize on opportunities across various industrial segments:** The majority of the Company's business historically comes from selling solutions internationally. In the fiscal years 2023, 2022, and 2021, they earned 16.09%, 12.22%, and 15.62% of their revenue from domestic sales. With increasing government incentives and initiatives boosting manufacturing the demand for industrial products including flexible flow solutions is set to rise. The Company plans to capitalize on this by expanding domestically and leveraging their expertise in complex flexible flow solutions gained from international markets.

### Indicative Timetable

Activity	On or about
Finalisation 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

### Shareholding (No. of shares)

Pre-Issue	11,43,20,370
Post Issue (Lower price band)	
Post Issue (Higher price band)	12,93,20,370

### Shareholding Pattern

	%
<b>Promoters:</b>	
Pre Issue	84.57%
Post Issue	61.23%
<b>Promoters Group:</b>	
Pre Issue	6.52%
Post Issue	5.76%
<b>Public - Investor Selling S/h:</b>	
Pre Issue	0
Post Issue	0
<b>Public - Others:</b>	
Pre Issue	8.91%
Post Issue	33.01%

### Issue Breakup

QIB	50%
NIB	15%
Retail	35%

### Other Details

**BRLMs:** Pantomath Capital Advisors

**Registrar:** Link Intime India Pvt. Ltd.

**Listing:** BSE & NSE

### Research Analyst

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### Risk

- Higher dependency on China for Raw Material Supply.
- Higher Dependency on Single Manufacturing Facility.

### MView

We believe Aeroflex is well placed in a niche segment of manufacturing of stainless eco-friendly metallic flexible steel hoses, which is said to be an alternative to rubber based hoses. We like Aeroflex's diversified portfolio of products catering to diverse industry segments, each following stringent quality standards and undergoing rigorous regulatory scrutiny and approvals. This characteristic creates a significant barrier to entry for potential competitors, further solidifying their dominance in this specialized sector. We think as an export oriented business model Aeroflex holds the potential to amplify its global presence by expanding its geographic footprint. The company has further strategy to increase their product portfolio and it is seen in their increased spending in R&D of the new products. By looking at the financials, Aeroflex has delivered remarkable growth between FY2021 and FY2023 achieving a CAGR of 36.43%/55.54%/123.97% in Revenue/EBITDA/PAT for Fiscal 2021 and Fiscal 2023. On Valuation parse at upper price band of ₹ 108/- and based on annualized earnings and fully diluted post-IPO paid-up capital, the issue is asking for a Market Cap of ₹ 1397 Cr with P/E of 46x on consolidated basis, which seems the issue is aggressively priced-in. Given the company's strong growth trajectory and its niche segment demand, we are inclined to recommend investors to "SUBSCRIBE" to the Aeroflex Industries Ltd IPO with a long-term perspective. Due to the new segment it has no immediate peers to compare and hence the issue is fetching demand on first mover advantage due to which there could be a good room for healthy listing gains.

## CONSOLIDATED FINANCIAL TABLES

BASIC FINANCIAL DETAILS			
Particulars ₹ (in Cr)	2021	2022	2023
Equity Share Capital	22.86	22.86	22.86
Reserve as stated	35.85	63.36	91.23
Net worth as stated	58.72	86.22	114.09
Revenue from Operations	144.77	240.8	269.46
Revenue Growth (%)	-	66.33%	11.90%
EBITDA as stated	22.34	46.69	54.03
EBITDA Margin (%)	15.43%	19.39%	20.05%
Profit Before Tax	8.05	36.86	41.21
Net Profit for the Period	6.01	27.51	30.15
Net Profit Margin (%)	4.15%	11.42%	11.19%
EPS (₹)	0.53	2.41	2.64
RONW %	10.24%	31.90%	26.43%
NAV (₹)	5.14	7.54	9.98

Source: RHP



# MSEARCH

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### **Msearch's Recommendation (Absolute Performance)**

**Buy: > 20% within the next 12 Months**

**Accumulate: 5% to 20% within the next 12 Months**

**Sell : < -20% within the next 12 Months**

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