

January 17, 2025

Good Show, New Capex to lift visibility ...

About the stock: Aeroflex Industries Limited (AERIND), incorporated in 1993, is engaged in the business of manufacturing and supply of metallic flexible flow solutions made with stainless steel

- Product range includes stainless steel corrugation products (braided and non-braided) such as hose, double interlock flexible metal hoses, composite hose, stainless steel hose assemblies, teflon/PTFE hose, fittings
- Q3FY25 revenue Mix: ~77% from exports, ~23% from domestic markets
- Consolidated revenue of the company has grown by ~30% CAGR in the last 3 years during the period FY21-24 while EBITDA and PAT have grown by ~40% CAGR and ~91% CAGR respectively over the same period

Investment Rationale:

- Higher share of Assembly /Domestic revenues drives topline growth:** The share higher margin assembly segment stood at 49% in Q3FY25 vs. 40% in H1FY25. This reiterates the fact that the company is in the right direction to take the assembly segment share to 70% in next 2-3 years. More so the company is also incurring a capex of increasing the assembly stations from 40 to 70 by FY26E which will lead to better product mix and higher margins. On other hand, the share of domestic stood at 23% as execution related to domestic projects gained momentum in the quarter. Going ahead, with increasing penetration in the US markets, new product development and traction Hyd-Air engineering will drive revenue CAGR at 21% over FY24-FY27E.
- New capex to enhance visibility in the long run:** The company in Q3FY25 announced new capex plans to enhance visibility in the medium to long term. In the SS hoses segment the company after augmenting the capacity to 16.5 m metre in FY25E has further planning to add another 3.5 m metre capacity by FY26E coupled with adding of 30 new assembly stations (taking the count to 70) and automation of welding process. This will require a capex of Rs 54 crore. In the new product segment, the company is planning to put a capacity for manufacturing miniature metal bellows at a capex of Rs 23 crore. All this capex will be funded from internal accruals and drive growth over FY26E-FY27E. This capex will margin accretive as miniature metal bellows command margins of 30-35% while assemblies have 20-25% margin profile.

Rating and Target Price

- With strong traction in export/domestic markets, new capex and expansion in margins, we expect the company to deliver a strong CAGR of 21% and 28% in revenues and PAT, respectively over FY24-FY27E. The lean balance sheet and strong cash flow generation will improve ROCE to 25.3% in FY27E from 22.5% in FY25E which will ensure the company commands rich multiple.
- We value the company at 38x FY27E EPS to arrive at a fair value of Rs 280 with a Buy Rating.



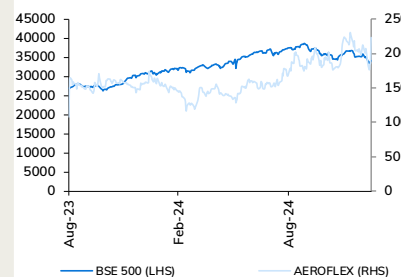
Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	2,884
FY24 Debt (Rs Crore)	0
FY24 Cash (Rs Crore)	106
EV (Rs Crore)	2,778
52 Week H/L (Rs)	235 / 114
Equity Capital (Rs Crore)	25.9
Face Value	2

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Dec-24
Promoter	67.0	67.0	67.0	67.0
FII	0.4	0.3	0.2	1.6
DII	5.8	6.2	5.9	5.7
Others	26.8	26.6	26.9	25.8

Price Chart



Key risks

- Global slowdown and significant reliance on exports
- Dependence on Chinese-raw material suppliers
- High working capital requirements

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Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25E	FY26E	FY27E	2 year CAGR (FY25-27E)
Revenue	145	241	269	318	30.0	387	463	563	20.6
EBITDA	22	47	53	62	40.4	83	102	136	28.2
EBITDA Margin (%)	15.4	19.4	19.6	19.4		21.4	22.1	24.1	
Net Profit	7	27	30	42	79.4	58	72	95	27.6
Diluted EPS (Rs)	0.5	2.1	2.3	3.2		4.5	5.6	7.3	
P/E (x)	479.8	104.8	95.6	69.1		49.5	39.8	30.2	
EV/EBITDA (x)	131.3	62.4	55.2	44.9		34.2	27.9	20.8	
RoCE (%)	17.9	39.9	33.1	20.2		22.5	23.5	25.3	
RoE (%)	10.2	31.9	26.4	14.2		16.8	17.6	18.7	

Source: Company, ICICI Direct Research

Q3FY25 and 9MFY25 Result Summary

- Revenue increased by 34.3% YoY (+5.1% QoQ) to ₹ 100 crore in Q3FY25
- EBITDA margin during the quarter stands at 21.7% (+7.7 % YoY). EBITDA was up 44.6% YoY to ₹ 21.7 crore
- PAT was up 68.3% YoY to ₹ 15.2 crore (vs ₹ 9 crores in Q3FY24)
- The 9MFY25 revenue is up 17.3% YoY to ₹ 284.5 crore while EBITDA margin stands at 21.1% (vs 20.6% in 9MFY24). 9MFY25 PAT increased by 30.5% YoY to ₹ 41.3 crore (vs ₹ 31.6 crores in 9MFY24)

Q3FY25 Earnings call highlights

- Management guides FY25E revenue growth of 18%+ YoY, as orders from assembly segment (higher margin product) have gradually increased its share in the order book
- The company has commenced production for its metal bellows segment and are targeting a ₹ 80-90 crore revenue at a margin of 25-30% per annum once the capacity reaches its optimum level
- In terms of product developments, the company has introduced a new segment of miniature metal bellows having a diameter of 10-15mm for uses in advanced industrial applications. The margin expected is between 30-35%. The capex for the project is ₹ 23 crore and is expected to be operational by March' 26
- Regarding the current capacity expansion on SS flexible hoses the company plans to add a further 3.5 million meters to its current capacity of 16.5 million meters, taking the total capacity to 20 million meters by March' 26. They also have plans to increase their current assembly segment capacity from 40 to 70 (an increase of 30 new lines). The total capex for these projects is at ₹ 54 crores, to be funded from internal accruals
- On the Hyd-Air front the company has earned a revenue of ₹ 3 crore with a net profit of ₹ 36 lakhs (12% profit margin). They have also used up ₹ 6 crore from the planned capex of ₹ 18 crore in the past 12 months in upgrading the current facility with CNC machines and will further invest | 11 crore in FY26E.
- The company has received higher orders in its assembly segment during the quarter for bigger diameters hoses and are positive about earning higher margins as the raw materials for these projects have been locally sourced due to supply chain disruptions
- The company is positive about increase in US exports in the future as they may benefit from new industrialisation policies. They also are targeting for customers in Middle East and Africa and might see orders from them in the next 3-4 years. The business from European markets have hit a rough patch but it is still of significant importance to Aeroflex
- The company has met its EBITDA target for the year and are positive about maintaining it till the year end FY25 and going forward they target an EBITDA margin between ~25% in FY27E.

Exhibit 1: Q3FY25 and 9MFY25 result snapshot (₹ crore)

	Q3FY25	Q3FY24	YoY (%)	Q3FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Total Revenue	99.8	73.1	36.5%	95.0	5.1%	284.5	240.1	18.5%
Raw materials costs	60.0	45.6		55.8		170.1	152.4	
Employees Expenses	9.2	6.7		8.8		26.0	19.4	
Other Expenses	8.9	7.0		10.0		28.2	21.0	
Total Expenditure	78.1	59.3		74.6		224.4	192.8	
EBITDA	21.7	13.8	57.0%	20.4	6.5%	60.2	47.4	27.0%
EBITDA margins (%)	21.7%	18.9%		21.4%		21.1%	19.7%	
Other Income	0.6	1.2		0.8		2.4	2.5	
Interest	0.1	0.1		0.1		0.2	2.1	
Depreciation	2.5	1.6		2.4		7.3	4.5	
PBT	19.7	13.3		18.7		55.0	43.3	
Tax	4.5	4.3		5.0		13.7	11.7	
PAT	15.2	9.0	68.3%	13.7	11.3%	41.3	31.6	30.5%

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Revenue	317.9	387.2	462.6	563.2
% Growth	18.0	21.8	19.5	21.7
Other income	3.8	4.6	5.5	6.6
Total Revenue	321.8	391.9	468.2	569.8
Employee Expenses	26.2	34.1	39.2	45.0
Other expenses	28.5	36.2	43.4	49.9
Total Operating Expenditure	256.1	304.5	360.2	427.3
Operating Profit (EBITDA)	61.8	82.7	102.5	135.9
% Growth	16.8	33.8	23.9	32.7
Interest	2.1	0.4	0.4	1.4
PBDT	63.5	86.9	107.6	141.2
Depreciation	6.3	9.3	11.1	13.5
PBT before Exceptional Items	57.3	77.6	96.5	127.6
Total Tax	15.5	19.4	24.1	31.9
PAT before MI	41.7	58.2	72.4	95.7
PAT	41.7	58.2	72.4	94.7
% Growth	38.4	39.5	24.3	30.9
Diluted EPS	3.2	4.5	5.6	7.3

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	41.7	58.2	72.4	94.7
Depreciation	6.3	9.3	11.1	13.5
Interest	2.1	0.4	0.4	1.4
Cash Flow before WC changes	50.1	67.9	83.9	109.7
Changes in inventory	(2.9)	(13.0)	(14.0)	(20.2)
Changes in debtors	(27.8)	(20.2)	(22.4)	(31.4)
Other current assets	1.7	(17.1)	(1.9)	(7.0)
Net Increase in Current Assets	(29.0)	(50.3)	(38.3)	(58.5)
Changes in creditors	18.5	11.4	13.0	18.8
Other current liabilities	8.9	(0.6)	3.9	9.3
Net Increase in Current Liabilities	27.4	10.8	16.9	28.1
Net CF from Operating activities	48.5	28.4	62.5	79.2
(Purchase)/Sale of Fixed Assets	(37.7)	(70.0)	(85.0)	(50.0)
Others	(1.4)	-	-	-
Net CF from Investing activities	(39.1)	(70.0)	(85.0)	(50.0)
Dividend and Dividend Tax	(3.2)	(4.5)	(6.5)	-
Others	93.6	(1.4)	(0.4)	(1.4)
Net CF from Financing Activities	90.3	(5.9)	(6.9)	(2.4)
Net Cash flow	99.7	(47.5)	(29.4)	26.8
Opening Cash/Cash Equivalent	6.2	105.9	58.4	29.0
Closing Cash/ Cash Equivalent	105.9	58.4	29.0	55.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Equity Capital	25.9	25.9	25.9	25.9
Reserve and Surplus	267.3	320.0	385.9	479.7
Total Shareholders funds	293.2	345.9	411.8	505.5
Total Debt	0.1	0.1	0.1	0.1
Total Liabilities	294	347	413	506
Gross Block	159.5	224.9	309.9	359.9
Acc: Depreciation	77.2	86.5	97.6	111.1
Net Block	82.3	138.4	212.3	248.7
Capital WIP	5.4	10.0	10.0	10.0
Total Fixed Assets	87.7	148.4	222.3	258.7
Non Current Assets	3.7	3.7	3.7	3.7
Inventory	58.9	71.9	85.9	106.2
Debtors	94.7	114.9	137.2	168.6
Other Current Assets	20.7	37.8	39.7	46.7
Cash	105.9	58.4	29.0	55.8
Total Current Assets	283.7	286.5	295.3	380.7
Current Liabilities	55.1	66.6	79.5	98.4
Net Current Assets (Ex Cash)	96.8	136.3	157.7	-
Total Assets	294	347	413	506

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Per Share Data				
EPS	3.2	4.5	5.6	7.3
Cash per Share	8.2	4.5	2.2	3.8
BV	22.7	26.7	31.8	38.6
Dividend per share	0.2	0.4	0.5	0.5
Dividend payout ratio	8%	8%	9%	7%
Operating Ratios				
EBITDA Margin	19.4	21.4	22.1	24.1
PAT Margin	13.1	15.0	15.6	16.8
Return Ratios				
RoE	14.2	16.8	17.6	19.1
RoCE	20.2	22.5	24.7	26.7
Valuation Ratios				
EV / EBITDA	44.9	34.2	27.9	20.9
P/E	69.1	49.5	39.8	30.2
EV / Net Sales	8.6	7.2	6.1	5.0
Sales / Equity	1.1	1.1	1.1	1.1
Market Cap / Sales	9.0	7.4	6.2	5.1
Price to Book Value	9.8	8.3	7.0	5.8
Workin Capital Management Ratios				
Inventory Days	67	67	67	68
Debtors Days	107	107	107	108
Creditors Days	63	62	62	63
Asset turnover	2.0	1.7	1.5	1.6
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	2.7	2.7	2.7
Quick Ratio	1.7	1.7	1.7	1.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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