

CMP: ₹ 181

Target: ₹ 245 (36%)

Target Period: 12 months

January 29, 2026

BUY

**Sturdy in uncertain times...**

**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

- 9MFY26 revenue Mix: ~73% from exports, ~27% from domestic markets
- Consolidated revenue of the company has grown by ~27% CAGR in the last 4 years during the period FY21-25 while EBITDA and PAT have grown by ~38% CAGR and ~72% CAGR respectively over the same period.

**Q3FY26 performance:** Aeroflex Industries reported healthy quarterly revenue of ₹121.1 crore in Q3FY26, up 21% YoY, driven by a favourable shift towards value-added products and entry into high-growth data centre liquid-cooling applications. EBITDA grew 28% YoY to ₹28.4 crore with margins expanding 171 bps YoY to 23.5%, while PAT increased 8% YoY to ₹16.5 crore. The company also commissioned an additional 1 million meters of hose capacity, taking total annual capacity to 17.5 million meters.

**Investment Rationale:**

- Sustained margin expansion led by value-added portfolio:** Aeroflex's strategic shift towards higher-margin value-added products—assemblies, fittings, bellows and Liquid cooling skid systems has materially strengthened profitability. Value-added products contributed ~54% of total sales in 9MFY26 expected to contribute 70% to the revenue mix in near term. Management indicated sustained EBITDA margins in the ~23–25% range, underpinned by operating leverage from incremental capacity additions and a richer product mix which will drive growth going forward.
- New growth vector from data centre liquid cooling:** Company has entered the global liquid cooling market for data centres and AI infrastructure. This marks entry into a high-growth market valued at \$3 billion globally, projected to reach \$21 billion over the next 6-7 years at 33% CAGR, establishing platform for repeat orders and long-term revenue visibility. Company has completed its first commercial dispatch in Q3FY26. Liquid cooling skid assembly capacity is being ramped up to ~15,000 units per annum by June 2026, with peak revenue potential of ~₹300–350 crore at ~80% utilisation, creating a meaningful medium-term growth engine.

**Rating and Target Price**

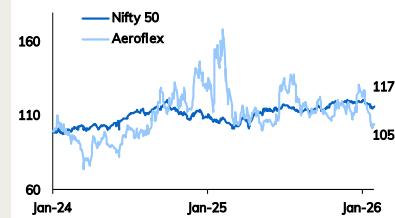
- We expect the company to deliver a strong CAGR of 21.8% and 26% in revenues and PAT, respectively over FY25-FY28E. The lean balance sheet and strong cash flow generation will improve ROCE to 27% in FY28E from 21.5% in FY25.
- We value the company at 30x FY28E EPS to arrive at a fair value of **Rs. 245** with a **Buy Rating**.

**Particulars**

Particular	Rs. (in crore)
Market Capitalisation	2114
Total Debt (H1FY26)	0.33
Cash and Inv (H1FY26)	151
Enterprise Value	1963
52 week H/L (Rs.)	271/145
Equity capital	25.86
Face value (Rs.)	2

**Shareholding pattern**

%	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	67.0	67.0	67.0	67.0
FII	0.7	0.4	0.2	1.0
DII	5.9	3.9	3.4	3.6
Others	26.4	28.7	29.3	28.5

**Price Chart****Key risks**

- (i) Global slowdown and significant reliance on exports
- (ii) High working capital requirements

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**Key Financial Summary**

(Rs. in crore)	FY23	FY24	FY25	2 year CAGR (FY23-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
Revenue	269	318	376	18.2	416	527	679	21.8
EBITDA	53	62	79	22.2	91	114	157	25.7
EBITDA Margin (%)	19.6	19.4	21.0		21.8	21.6	23.1	
Net Profit	30	42	53	32.0	56	71	105	26.0
Diluted EPS (Rs)	2.3	3.2	4.1		4.3	5.5	8.1	
P/E (x)	80.2	57.9	46.1		43.3	33.6	22.7	
EV/EBITDA (x)	46.4	37.4	30.3		26.4	21.0	15.0	
RoCE (%)	33.5	20.5	21.5		19.9	22.2	26.9	
RoE (%)	26.4	14.2	15.3		14.4	16.0	19.3	

Source: Company, ICICI Direct Research

## Earnings call highlights

- The company delivered its highest-ever quarterly revenue of ₹121 crores (up 21% YoY), along with EBITDA of ₹28.5 crores (up 30% YoY) and PAT of ₹16.5 crores (up 8% YoY). EBITDA margin expanded to 23.6% (+171 bps YoY), reflecting successful portfolio premiumization and improved product mix toward value-added solutions.
- Company successfully commissioned 1 million meters of hose capacity in January 2026, bringing total installed capacity to 17.5 million meters annually. The remaining 2.5 million meters of planned capacity addition will be commissioned in phases by Q2FY27, providing runway for sustained growth.
- Value-added products including assemblies, fittings, bellows and skid assemblies contributed 54% of total sales for 9MFY26. The company is plans to increase this segment contribution to 70% of revenue mix in the coming years.
- Management revised miniature metal bellows capex from ₹23 crores to ₹10-12 crores, reducing planned capacity from 240,000 pieces to 60,000 pieces annually to match near-term demand visibility. This phased approach reduces project gestation risk and enables faster payback. Balanced funds being redeployed to projects with stronger demand visibility like liquid cooling and process automation.
- **Strategic Entry into Data Centre Liquid Cooling Market:**
  - The company achieved first commercial dispatch of advanced flow control components and skid assemblies for liquid-cooling data centre applications. This marks entry into a high-growth market valued at \$3 billion globally, projected to reach \$21 billion over the next 6-7 years at 33% CAGR, establishing platform for repeat orders and long-term revenue visibility.
  - Liquid cooling skid assembly capacity is being expanded from current 2,000 units to 15,000 units per annum by June 2026. At peak utilization (80%), this capacity can generate ₹300-350 crores annual revenue with average realization of ₹3 lakhs per unit, expected to be achieved by FY29 based on demand projections from the exclusive US partner.
- **EBITDA Margin Guidance:** Management has guided EBITDA margin in range of 23-25% for next 2-3 years going forward for this they are focusing on high margin, value added products, especially in assemblies, liquid cooling solutions and metal bellows.
- **Mid-Term Vision:** At peak utilization across all divisions: Hose and assemblies ₹650-675 crores (at 20 million meters capacity with 70% from assemblies), liquid cooling ₹300-350 crores (FY29), metal bellows ₹85 crores (FY29), Hyd-Air ₹45-50 crores, and miniature bellows ₹8-9 crores. Total peak revenue potential exceeds ₹1,000 crores over the next 3 years with improved margin profile from value-added mix.

## Exhibit 1: Q2FY26 result snapshot (Rs. in crore)

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Operating Income	120.9	99.8	21.1	110.9	9.0	Driven by favourable product mix
Other income	0.2	0.6		0.2		
Total Revenue	121.1	100.4		111.1		
Raw materials costs	67.3	60.0		62.3		
Employees Expenses	11.3	9.2		10.8		
Other Expenses	13.9	8.9		11.9		
Total Expenditure	92.5	78.1		85.0		
EBITDA	28.4	21.7	30.7	25.9	9.5	
EBITDA margins (%)	23.5	21.7	171 bps	23.3	11 bps	Supported by operating leverage, better mix and efficiency gains
Interest	0.2	0.1		0.2		
Depreciation	6.3	2.5		6.1		
Tax	5.6	4.5		5.5		
PAT	16.5	15.2	8.4	14.2	15.8	Higher depreciation from capacity expansion being undertaken impacted PAT growth
PAT margins (%)	13.64	15.2	-160 bps	12.8	80 bps	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement				
(Year- end March)	FY25	FY26E	FY27E	₹ crore FY28E
<b>Net Sales</b>	<b>376.2</b>	<b>415.9</b>	<b>526.8</b>	<b>679.3</b>
% Growth	18.3	10.5	26.7	28.9
Other income	2.5	3.0	3.0	3.0
<b>Total Revenue</b>	<b>378.8</b>	<b>418.9</b>	<b>529.8</b>	<b>682.3</b>
Employee Expenses	35.3	40.6	47.5	57.0
Other expenses	38.1	47.6	54.8	64.6
Total Operating Expenditure	297.2	325.3	413.1	522.4
<b>Operating Profit (EBITDA)</b>	<b>61.8</b>	<b>79.0</b>	<b>90.6</b>	<b>113.7</b>
% Growth	16.8	27.9	14.6	25.5
Interest	2.1	0.4	0.4	1.0
PBDT	63.5	81.2	93.3	115.7
Depreciation	6.3	11.3	18.7	19.5
PBT before Exceptional Items	57.3	69.9	74.5	96.3
Total Tax	15.5	17.4	18.6	24.1
PAT before MI	41.7	52.5	55.9	72.2
<b>PAT</b>	<b>41.7</b>	<b>52.5</b>	<b>55.9</b>	<b>71.2</b>
% Growth	38.4	25.8	6.5	27.3
<b>Diluted EPS</b>	<b>3.2</b>	<b>4.1</b>	<b>4.3</b>	<b>5.5</b>

Source: Company, ICICI Direct Research

Exhibit 3: Cash Flow Statement				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Profit/(Loss) after taxation	52.5	55.9	71.2	104.9
Depreciation	11.3	18.7	19.5	16.3
Interest	0.4	0.4	1.0	1.0
Cash Flow before working capital changes	64.1	75.0	91.7	122.3
(Increase)/Decrease in inventory	(7.7)	(10.2)	(21.8)	(30.3)
(Increase)/Decrease in debtors	(21.8)	(6.3)	(34.0)	(45.1)
(Increase)/Decrease in other current assets	(8.1)	(3.4)	(6.1)	(13.3)
Net Increase in Current Assets	(37.6)	(19.9)	(61.8)	(88.7)
Changes in creditors	1.7	14.3	20.3	26.3
Other current liabilities	8.9	(0.7)	3.6	8.9
Net Increase in Current Liabilities	1.0	17.9	29.2	32.5
<b>Net CF from Operating activities</b>	<b>27.5</b>	<b>73.0</b>	<b>59.0</b>	<b>66.0</b>
(Purchase)/Sale of Fixed Assets	(103.1)	(70.0)	(40.0)	(20.0)
Others	1.0	-	-	-
<b>Net CF from Investing activities</b>	<b>(103.4)</b>	<b>(68.7)</b>	<b>(40.0)</b>	<b>(20.0)</b>
Dividend and Dividend Tax	(4.5)	(6.5)	(10.3)	-
Others	1.3	(2.6)	(1.0)	(1.0)
<b>Net CF from Financing Activities</b>	<b>(3.2)</b>	<b>(9.1)</b>	<b>(12.3)</b>	<b>(3.0)</b>
Net Cash flow	(79.1)	(4.8)	6.6	43.0
Opening Cash/Cash Equivalent	105.9	26.8	22.0	28.6
Closing Cash/ Cash Equivalent	26.8	22.0	28.6	71.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
(Year-end March)	FY25	FY26E	FY27E	₹ crore FY28E
Equity Capital	25.9	25.9	25.9	25.9
Reserve and Surplus	316.5	363.8	423.6	526.5
Total Shareholders funds	342.4	389.6	449.5	552.4
Total Debt	0.6	0.6	0.6	0.6
<b>Total Liabilities</b>	<b>345</b>	<b>392</b>	<b>452</b>	<b>555</b>
Gross Block	258.1	328.0	368.0	388.0
Acc: Depreciation	88.5	107.2	126.7	143.0
Net Block	169.7	220.8	241.3	245.0
Capital WIP	9.8	10.0	10.0	10.0
Total Fixed Assets	179.5	230.8	251.3	255.0
Non Current Assets	3.6	3.6	3.6	3.6
Inventory	66.7	76.9	98.7	129.0
Debtors	116.5	122.8	156.8	201.9
Other Current Assets	29.5	32.9	39.0	52.4
Cash	26.8	22.0	28.6	71.6
Total Current Assets	242.3	257.3	325.8	457.6
Current Liabilities	56.8	71.2	91.4	117.8
Net Current Assets (Ex Cash)	133.5	135.5	-	-
<b>Total Assets</b>	<b>345</b>	<b>392</b>	<b>452</b>	<b>555</b>

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E
<b>Per Share Data</b>				
EPS	4.1	4.3	5.5	8.1
Cash per Share	2.1	1.7	2.2	5.5
BV	26.5	30.1	34.8	42.7
Dividend per share	0.4	0.5	0.8	-
Dividend payout ratio	9%	12%	15%	0%
<b>Operating Ratios</b>				
EBITDA Margin	21.0	21.8	21.6	23.1
PAT Margin	14.0	13.4	13.5	15.4
<b>Return Ratios</b>				
RoE	15.3	14.4	16.0	19.3
RoCE	21.5	19.9	22.2	26.9
<b>Valuation Ratios</b>				
EV / EBITDA	30.3	26.4	21.0	15.0
P/E	46.1	43.3	33.6	22.7
EV / Net Sales	6.3	5.7	4.5	3.4
Sales / Equity	1.1	1.1	1.2	1.2
Market Cap / Sales	6.4	5.8	4.6	3.5
Price to Book Value	7.1	6.2	5.4	4.4
<b>Working Capital Management Ratios</b>				
Inventory Days	64	67	68	69
Debtors Days	112	107	108	108
Creditors Days	55	62	63	63
Asset turnover	1.5	1.3	1.4	1.8
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.9	2.6	2.6	2.7
Quick Ratio	1.9	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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