

January 29, 2026

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

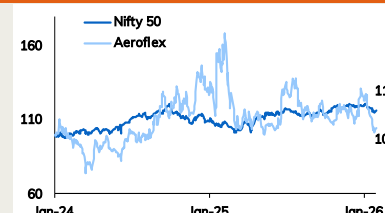
- We expect the company to deliver a strong CAGR of 21.8% and 26% in revenues and PAT, respectively over FY25-FY28E. The lean balance sheet and strong cash flow generation will improve ROCE to 27% in FY28E from 21.5% in FY25.
- We value the company at 30x FY28E EPS to arrive at a fair value of **Rs.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

- Global slowdown and significant reliance on exports
- 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 ₹ crore

| (Year- end March) | FY25 | FY26E | FY27E | FY28E |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net Sales | 376.2 | 415.9 | 526.8 | 679.3 |
| % Growth | 18.3 | 10.5 | 26.7 | 28.9 |
| Other income | 2.5 | 3.0 | 3.0 | 3.0 |
| Total Revenue | 378.8 | 418.9 | 529.8 | 682.3 |
| 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 |
| Operating Profit (EBITDA) | 61.8 | 79.0 | 90.6 | 113.7 |
| % 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 |
| PAT | 41.7 | 52.5 | 55.9 | 71.2 |
| % Growth | 38.4 | 25.8 | 6.5 | 27.3 |
| Diluted EPS | 3.2 | 4.1 | 4.3 | 5.5 |

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 |
| Net CF from Operating activities | 27.5 | 73.0 | 59.0 | 66.0 |
| (Purchase)/Sale of Fixed Assets | (103.1) | (70.0) | (40.0) | (20.0) |
| Others | 1.0 | - | - | - |
| Net CF from Investing activities | (103.4) | (68.7) | (40.0) | (20.0) |
| Dividend and Dividend Tax | (4.5) | (6.5) | (10.3) | - |
| Others | 1.3 | (2.6) | (1.0) | (1.0) |
| Net CF from Financing Activities | (3.2) | (9.1) | (12.3) | (3.0) |
| 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 ₹ crore

| (Year-end March) | FY25 | FY26E | FY27E | 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 |
| Total Liabilities | 345 | 392 | 452 | 555 |
| 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 | - | - |
| Total Assets | 345 | 392 | 452 | 555 |

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

| (Year-end March) | FY25 | FY26E | FY27E | FY28E |
|---|------|-------|-------|-------|
| Per Share Data | | | | |
| 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% |
| Operating Ratios | | | | |
| EBITDA Margin | 21.0 | 21.8 | 21.6 | 23.1 |
| PAT Margin | 14.0 | 13.4 | 13.5 | 15.4 |
| Return Ratios | | | | |
| RoE | 15.3 | 14.4 | 16.0 | 19.3 |
| RoCE | 21.5 | 19.9 | 22.2 | 26.9 |
| Valuation Ratios | | | | |
| 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 |
| Workin Capital Management Ratios | | | | |
| 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 |
| Solvency Ratios | | | | |
| 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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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