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Riding the data centre cooling opportunity...

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

- FY26 revenue Mix: ~69% from exports, ~31% from domestic markets
- Consolidated revenue of the company has grown by ~25% CAGR in the last 5 years during the period FY21-26 while EBITDA and PAT have grown by ~35% CAGR and ~56% CAGR respectively over the same period.

Q4FY26 performance: Aeroflex Industries Limited delivered record Q4FY26 and FY26 performance, with Q4FY26 revenue rising 37% YoY to ₹125.8 crore, EBITDA increasing 59% YoY to ₹30.0 crore (margin 23.86%, +326 bps YoY) and PAT growing 57% YoY to ₹17.6 crore. For FY26, revenue stood at ₹442 crore (+17.5% YoY), EBITDA at ₹99.7 crore (+26% YoY, margin 22.6%), and PAT at ₹55.5 crore (+6% YoY), supported by strong domestic demand and robust performance of the Hyd-Air subsidiary.

Investment Rationale:

- **Transition towards high-value data centre solutions to drive structural growth:** Aeroflex is undergoing a strategic shift from a traditional hose manufacturing business to a high-margin, value-added solutions player, led by its entry into liquid cooling skid assemblies for data centres and AI infrastructure. The skid segment has already demonstrated strong early traction with 617 units sold (~₹21 crore revenue in just ~4 months) and is expected to scale meaningfully (~₹150 – 200 crore by FY28), with capacity expanding to 15,000 units and targeted utilisation of ~60–70% by FY27-end. Given the ~35% CAGR growth in global liquid cooling demand, this segment is expected to contribute ~20–22% of total revenues in FY27 (vs ~5% in FY26), providing strong visibility for accelerated revenue growth and margin expansion, while positioning the company in a high-growth, technology-driven niche.
- **Strong margin profile supported by product mix and operating leverage:** Aeroflex has consistently improved its profitability with EBITDA margins expanding to ~23.9% in Q4FY26, driven by a higher share of value-added products (52% of sales) and operating leverage benefits. Management has guided for ~23% EBITDA margins in FY27 with a medium-term target of ~25%, supported by scaling of skid assemblies, improved product mix and cost efficiencies. Additionally, legacy businesses such as hoses, fittings and metal bellows provide a stable base, growing at ~15–20%, while new segments drive incremental margin expansion. The company also benefits from a ~25–30% cost advantage globally, enabling strong export competitiveness and sustained profitability across cycles.

Rating and Target Price

- We expect the company to deliver a strong CAGR of 29% and 46% in revenues and PAT, respectively over FY26-FY28E. We value the company at 45x FY28E EPS to arrive at a fair value of **Rs. 410** with a **Buy** Rating.

Key Financial Summary

(Rs. in crore)	FY24	FY25	FY26	2 year CAGR (FY24-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
Revenue	318	376	442	17.9	587	735	29.0
EBITDA	62	79	100	27.0	135	176	32.7
EBITDA Margin (%)	19.4	21.0	22.6		23.0	23.9	
Net Profit	42	53	56	15.4	85	118	45.8
Diluted EPS (Rs)	3.2	4.1	4.3		6.6	9.1	
P/E (x)	106.9	85.0	80.3		51.8	37.3	
EV/EBITDA (x)	70.5	56.1	44.1		32.9	25.0	
RoCE (%)	20.5	21.5	17.4		25.4	28.6	
RoE (%)	14.2	15.3	12.4		18.5	20.6	

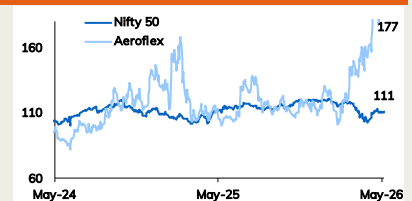
Source: Company, ICICI Direct Research

**Particulars**

Particular	Rs. (in crore)
Market Capitalisation	4321
Total Debt (FY26)	8.90
Cash and Inv (FY26)	70
Enterprise Value	4260
52 week H/L (Rs.)	337/151
Equity capital	25.86
Face value (Rs.)	2

Shareholding pattern

%	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	67.0	67.0	67.0	65.5
FII	0.4	0.2	1.0	1.5
DII	3.9	3.4	3.6	3.8
Others	28.7	29.3	28.5	29.2

Price Chart**Key risks**

- Global slowdown and significant reliance on exports
- High working capital requirements

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Earnings call highlights

- Q4FY26 Performance:** Aeroflex delivered a strong Q4 performance with revenue at ₹125.8 crore (+37% YoY), EBITDA at ₹30 crore (+59% YoY) and PAT at ₹17.6 crore (+57% YoY), driven by improved product mix and higher contribution from value-added solutions.
- Margins:** EBITDA margin expanded to ~23.9% (+326 bps YoY), supported by operating leverage and increasing share of high-margin products, with management targeting ~23% EBITDA margin for FY27 and ~25% over the medium term.
- Revenue Mix:** Value-added products (assemblies, fittings, bellows) contributed ~52% of sales, while skid assemblies contributed ~5% in FY26, skid assemblies is expected to scale to ~20–22% in FY27.
- Liquid cooling skid assemblies gained strong traction with 617 units sold (~₹21.2 crore revenue in FY26), indicating early success of the new segment and positioning it as a key growth driver.
- Domestic share increased to ~31% (vs 26% YoY) in FY26, driven by skid assemblies and Hi-Tech products, with domestic expected to grow faster due to data centre exposure.
- Capacity Expansion:** Skid capacity scaled from 2,000 to 6,000 units, with plans to expand to 15,000 units (Q2FY27), targeting ~60–70% utilisation by Mar'27, implying sharp scale-up in revenues.
- Hyd-Air:** Hyd-Air delivered ₹31.6 crore revenue with ~60% utilisation, and is expected to support internal demand (fittings/connectors) and play a key role in new-age applications.
- Data Centre Opportunity:** Liquid cooling market is growing at ~35% CAGR, with total addressable market expected to scale significantly, positioning Aeroflex in a high-growth niche.
- Growth Outlook:** Management expects ~35% overall growth in FY27, led by skid assemblies, while base business is expected to grow at ~15–20%, indicating strong momentum across segments.
- 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 ₹80 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: Q4FY26 result snapshot (Rs. in crore)

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments
Operating Income	125.8	91.7	37.2	120.9	4.1	Driven by favourable product mix
Other income	0.6	0.1		0.2		
Total Revenue	126.5	91.8		121.1		
Raw materials costs	71.9	53.7		67.3		
Employees Expenses	10.1	9.2		11.3		
Other Expenses	13.8	9.9		13.9		
Total Expenditure	95.8	72.8		92.5		
EBITDA	30.0	18.9	59.0	28.4	5.9	
EBITDA margins (%)	23.9	20.6	326 bps	23.5	41 bps	Supported by operating leverage, better mix and efficiency gains
Interest	0.3	0.1		0.2		
Depreciation	7.8	4.0		6.3		
Tax	4.9	3.7		5.6		
PAT	17.6	11.2	57.0	16.5	6.9	Driven by overall higher revenue growth and margin expansion
PAT margins (%)	14.0%	12.2%	1211 bps	13.6%	1350 bps	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Net Sales	376.2	441.9	587.0	735.3
% Growth	18.3	17.5	32.8	25.3
Other income	2.5	1.4	3.0	3.0
Total Revenue	378.8	443.3	590.0	738.3
Employee Expenses	35.3	41.3	48.3	58.0
Other expenses	38.1	50.0	57.4	67.8
Total Operating Expenditure	297.2	342.2	452.1	559.6
Operating Profit (EBITDA)	79.0	99.7	134.9	175.7
% Growth	49.4	26.2	35.2	30.2
Interest	0.4	0.4	0.9	1.0
PBDD	81.2	100.2	136.9	177.7
Depreciation	11.3	26.1	21.7	17.6
PBT before Exceptional Items	69.9	74.1	115.2	160.0
Total Tax	17.4	18.6	28.8	40.0
PAT before MI	52.5	55.5	86.4	120.0
PAT	52.5	55.5	85.4	118.0
% Growth	74.1	5.8	53.7	38.2
Diluted EPS	4.1	4.3	6.6	9.1

Source: Company, ICICI Direct Research

Exhibit 3: Cash Flow Statement

(Year-end March)	FY25	FY26	FY27E	FY28E
Profit/(Loss) after taxation	52.5	55.5	85.4	118.0
Depreciation	11.3	26.1	21.7	17.6
Interest	0.4	0.9	1.0	1.0
Cash Flow before working capital changes	64.1	82.5	108.1	136.7
(Increase)/Decrease in inventory	(7.7)	(17.0)	(26.2)	(29.6)
(Increase)/Decrease in debtors	(21.8)	(13.3)	(44.8)	(43.9)
(Increase)/Decrease in other current assets	(8.1)	(10.4)	(6.0)	(14.6)
Net Increase in Current Assets	(37.6)	(40.7)	(76.9)	(88.1)
Changes in creditors	1.7	23.9	21.1	25.6
Other current liabilities	8.9	(0.7)	2.1	13.0
Net Increase in Current Liabilities	1.0	26.0	34.1	30.3
Net CF from Operating activities	27.5	67.8	65.2	78.8
(Purchase)/Sale of Fixed Assets	(103.1)	(70.0)	(40.0)	(20.0)
Others	0.3	(0.7)	-	-
Net CF from Investing activities	(104.1)	(70.7)	(38.7)	(20.0)
Dividend and Dividend Tax	(4.5)	(5.2)	(10.3)	(15.5)
Others	1.3	61.8	(57.1)	(1.0)
Net CF from Financing Activities	(3.2)	46.5	(68.4)	(18.5)
Net Cash flow	(79.8)	43.5	(41.9)	40.3
Opening Cash/Cash Equivalent	105.9	26.1	69.7	27.7
Closing Cash/ Cash Equivalent	26.1	69.7	27.7	68.0

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Equity Capital	25.9	26.5	26.5	26.5
Reserve and Surplus	316.5	420.8	438.7	554.7
Total Shareholders funds	342.4	447.2	465.2	581.2
Total Debt	0.6	8.9	8.9	8.9
Total Liabilities	345	457	475	591
Gross Block	258.1	325.8	378.9	398.9
Acc: Depreciation	88.5	114.5	136.3	153.9
Net Block	169.7	211.2	242.6	245.0
Capital WIP	9.8	23.1	10.0	10.0
Total Fixed Assets	179.5	234.3	252.6	255.0
Non Current Assets	3.6	3.6	3.6	3.6
Inventory	66.7	83.7	109.9	139.6
Debtors	116.5	129.8	174.6	218.5
Other Current Assets	29.5	39.5	45.5	60.1
Cash	26.1	69.7	27.7	83.6
Total Current Assets	241.6	325.9	360.9	504.8
Current Liabilities	56.8	80.7	101.8	127.4
Net Current Assets (Ex Cash)	133.5	148.3	-	-
Total Assets	344	457	475	591

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Per Share Data				
EPS	4.1	4.3	6.6	9.1
Cash per Share	2.0	5.4	2.1	5.3
BV	26.5	34.6	36.0	43.7
Dividend per share	0.4	0.4	0.8	1.2
Dividend payout ratio	9%	9%	12%	13%
Operating Ratios				
EBITDA Margin	21.0	22.6	23.0	23.9
PAT Margin	14.0	12.6	14.5	16.1
Return Ratios				
RoE	15.3	12.4	18.5	21.1
RoCE	21.5	17.4	25.4	29.4
Valuation Ratios				
EV / EBITDA	56.1	44.1	32.9	25.1
P/E	85.0	80.3	51.8	37.3
EV / Net Sales	11.7	9.9	7.5	6.0
Sales / Equity	1.1	1.0	1.3	1.3
Market Cap / Sales	11.8	10.1	7.6	6.0
Price to Book Value	13.0	10.0	9.6	7.9
Workin Capital Management Ratios				
Inventory Days	64	69	68	69
Debtors Days	112	107	108	108
Creditors Days	55	66	63	63
Asset turnover	1.5	1.4	1.6	1.9
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.9	2.5	2.6	2.7
Quick Ratio	1.9	1.5	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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