



Press Release

Aeroflex Industries Limited

August 29, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	37.00	IVR BBB-; Under ratings watch with positive implications. [IVR Triple B Minus; Under ratings watch with positive implications]	Rating placed under ratings watch with positive implications	Simple
Total	37.00 (Rupees Thirty-Seven Crore Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings of Aeroflex Industries Limited have been placed on rating watch with positive implications in view of recent announcement of raising Rs.351.00 crore through an Initial Public Offering (IPO), the said proceeds from the issue will be utilized for the prepayment of outstanding debt and for working capital and general corporate purposes. This will significantly improve the company's capital structure and debt protection metrics in the medium term. The listing is expected to be on 01 September 2023.

The ratings continue to derive strength from the experienced promoters, improvement in the scale of operation in FY23, healthy financial risk profile backed by comfortable leverage position and coverage indicators. However, the rating is constrained by the volatility in the input cost, intense competition in the industry, working capital intensive nature of business and the risk associated with the inherent cyclical nature in the industry.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in profitability and cash accrual, thereby further improving debt protection metrics.



Press Release

- Steady improvement and sustenance in Gross Current Asset (GCA) days, thereby improving financial risk profile of the company.

Downward Factors

- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics.
- Stretch in the working capital cycle negatively impacting liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive industry experience of promoter**

The promoter has two decades of experience in the hose manufacturing business; his strong understanding of market dynamics and healthy relations with customers and suppliers should continue to support the business.

- **Healthy financial risk profile**

The company has a comfortable net worth of Rs.113.41 crore leading to a low gearing of 0.40x in FY23 and total outside liabilities / tangible networth stood at 0.88x in FY23. The debt protection metrics of the company as indicated by interest coverage ratio & DSCR stand strong at 11.95x and 2.31x respectively in FY23. Steady accretion to reserves should support the financial risk profile over the medium term.

- **Improving scale of operations**

The company's scale of operations have been improving on a y-o-y basis as reflected from an improved total operating income of Rs.269.38 crore in FY23 (vis-à-vis Rs.240.80 crore in FY22) backed by an increase in volumes as the company has started catering to OEM segment and new product development. The profit margins of the company as reflected by operating profit margin and net profit margin stands healthy at 20.18% & 11.19% respectively in FY22 (vis-à-vis 19.56% & 11.44% in FY22). Revenue is expected to improve going ahead on account of repeat orders from existing customers.



Press Release

Key Rating Weaknesses

- **Exposure to volatile raw material price**

Since cost of procuring the key raw material (steel) accounts for a bulk of production cost, even a slight variation in price can drastically impact the operating margin. Further, intense competitive pressure limits the ability to pass on any price hike to customers.

- **Working capital intensive nature of operations**

The operations continue to remain working capital intensive in nature with funds blocked in inventory and receivables. Further the operating cycle of the company has elongated and stood at 101 days in FY23 (as against 63 days in FY22) mainly on account of increase in gross current asset days from 133 days in FY22 to 161 days in FY23.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for assigning rating outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Adequate

The company generates sufficient cash accruals in order to meet its debt obligation. Further it maintains sufficient cash and bank balance to meet its liquidity requirements. The current ratio stands moderate at 1.96x in FY23. The projected average DSCR of 2.31x indicate comfortable liquidity position of the company in meeting its debt obligations. Further, the promoter's ability to infuse funds is strong as reflected historically. Owing to the healthy profitability and cash accruals, the coverage ratios are expected to be comfortable. Thus, the overall liquidity position of the company remained **Adequate**.

About the Company

Aeroflex Industries Limited, incorporated in 1993 by Mr Yusuf Kagzi, manufactures stainless steel corrugated flexible hoses and assemblies at its factory in Navi Mumbai, Maharashtra. Aeroflex is involved in manufacturing of Stainless Steel (SS) Corrugated (Braided and Non-



Press Release

Braided) Flexible Hoses and Stainless-Steel Braiding's and Assemblies. It manufactures a full range of metallic flexible hoses and hose assemblies in authentic stainless steel with grades AISI 304, 321, 316 & 316L, conforming to international quality standards. The stainless steel corrugated flexible hoses conform to BS 6501 part 1& ISO 10380 and are manufactured as per type A, B, and C flexibility. Sat Industries Ltd (SIL) is the holding company of AIL. SIL is listed on Bombay Stock Exchange for more than 32 years and is engaged in multiple businesses such as manufacturing, education, leasing, finance, investments, domestic trading and import and export through subsidiaries and associates.

Financials (Standalone)*:

For the year ended / As on	(Rs. Crore)	
	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	240.80	269.38
EBITDA	47.11	54.36
PAT	27.57	30.16
Total Debt	39.13	45.01
Adjusted Tangible Net worth	85.76	113.41
EBITDA Margin (%)	19.56	20.18
PAT Margin (%)	11.44	11.19
Overall Gearing Ratio (times)	0.46	0.40

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Nil.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Type	Current Ratings (Year 2023-24)		Rating History for the past 3 years		
			Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
Press Release					27-Jul-2022	-	-
1.	Fund Based – FCTL – I	Long Term	20.66	IVR BBB-; Under ratings watch with	IVR BBB-/ Stable	-	-



Press Release

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
Press Release					27-Jul-2022	-	-
				positive implications.			
2.	Fund Based – FCTL – II	Long Term	3.09	IVR BBB-; Under ratings watch with positive implications.	IVR BBB-/ Stable	-	-
3.	Fund Based – GECL	Long Term	7.91	IVR BBB-; Under ratings watch with positive implications.	IVR BBB-/ Stable	-	-
4.	Fund Based – Proposed	Long Term	5.34	IVR BBB-; Under ratings watch with positive implications.	IVR BBB-/ Stable	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Amey Joshi
Tel: (022) 62396023
Email: amey.joshi@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.



Press Release

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term – Fund Based – FCTL – I	–	–	Jun-2024	20.66	IVR BBB-; Under ratings watch with positive implications.
Long Term – Fund Based – FCTL – II	–	–	Mar-2024	3.09	IVR BBB-; Under ratings watch with positive implications.
Long Term – Fund Based – GECL	–	–	Feb-2025	7.91	IVR BBB-; Under ratings watch with positive implications.
Long Term – Fund Based – Proposed	–	–	–	5.34	IVR BBB-; Under ratings watch with positive implications.



Press Release

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-AIL-aug23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

