AEROFLEX INDUSTRIES LIMITED
"Commitment to Excellence"

May 10, 2024

To, The General Manager, Department of Corporate Services, BSE Limited, P.J. Towers, Dalal Street, Mumbai – 400001 Company Code No.: 543972	To, The Listing Department. National Stock Exchange of India Limited Exchange Plaza, C-1, Block G Bandra Kurla Complex Bandra (E), Mumbai – 400 051 Trading Symbol: AEROFLEX

Dear Sir/ Madam,

Subject: Transcript of the Investors' Conference Call held on May 07, 2024 for Q4 & FY24 Results

In continuation to our earlier intimation dated May 07, 2024 regarding audio recording of the Investors' Conference Call and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of Investors' Conference Call held on Tuesday, May 07, 2024 at 11:00 a.m. (IST) for Q4 & FY24 Results.

The transcript is also available on Company's website at

https://www.aeroflexindia.com/wp-content/uploads/Transcript-of-Q4-and-FY24-Earnings-Conference-Call-held-on-May-07-2024.pdf

Request you to kindly take the same on record.

Thanking You,

Yours faithfully,

For AEROFLEX INDUSTRIES LIMITED

MUSTAFA ABID KACHWALA
Digitally signed by MUSTAFA ABID KACHWALA
Date: 2024.05.10 16:41:49 +05'30'

Mustafa Abid Kachwala
Whole Time Director & CFO
DIN: 03124453

Encl: As above

Aeroflex Industries Limited
Business Office & Factory
Plot No: 41 & 42/13, 14, 18, Village: Chal, Near Taloja M.I.D.C.,
Post: Ghot Camp, Tal: Panvel, Dist: Raigad,
Maharashtra - 410 208 India
Phone: +91 22 6146 7100 (100 Lines), Fax: +91 22 6146 7136
Email: info@aeroflexindia.com, Website: www.aeroflexindia.com
CIN: U24110MH1993PLC074576

Govt. of India Recognised Export House

"Aeroflex Industries Limited

Q4 FY'24 Earnings Conference Call"

May 07, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 07th May 2024 will prevail.

MANAGEMENT: MR. ASAD DAUD - MANAGING DIRECTOR - AEROFLEX INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Aeroflex Industries Limited Q4 FY24 Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Asad Daud, Managing Director. Thank you and over to you, sir.

Asad Daud: Thank you so much. Good morning to everyone. I'm pleased to welcome you all to the Q4 and FY24 Earnings Call of Aeroflex Industries Limited.

Joining me on the call are members from our management team and SGA, our Investor Relations Advisor. I trust you all have had a chance to review our financial results and the investor presentation available on both the Stock Exchange platform and our company website. We have made a concentrated effort to address the investor inquiries and concerns, particularly regarding our capacity and our business operations.

Our latest presentation comprehensively covers these aspects, and we are committed to maintaining transparency in this regard moving forward. Coming to our performance this quarter, despite the geopolitical tensions that is ongoing in the Middle East, which is affecting especially the shipping routes and also the export markets, we are delighted to report sustained strong demand for our products across both the traditional and the emerging industries. FY24 has been an exceptionally successful year for Aeroflex.

It includes our debut on the Stock Exchange we got listed on 31st of August, 2023, marking a year of post-listing performance growth. Our production volume in this year has surged to 11.8 million meters, which is an increase of 32.18% on a year-on-year basis. We have maintained a capacity utilization rate at around 87.9%. One key aspect which is driving our growth is our relentless pursuit of excellence not only in the product development but also in our manufacturing processes.

We have invested significantly in research and development to introduce cutting-edge products and new-age solutions to cater to the ever-evolving needs of our industry and our customers. I think ahead of the curve, we are not only meeting but also exceeding the expectations from our customers, solidifying our position as the preferred partner for our customers in our industry. At Aeroflex, we provide the critical components to a diverse range of industries, which includes the aerospace, oil and gas, and in these industries, especially reliability, durability, and performance is of paramount importance.

Looking ahead, we are excited to expand our footprint also in the new-age industries such as solar, robotics, semiconductors, EV, and the aerospace industry. These sectors provide exciting opportunities for our company, and we are committed to leveraging our expertise and capabilities to serve these markets effectively. As of FY24, we have more than 2,300 SKUs across various product segments.

Talking about our business segment-wise, I'd say

SS Flexible Hose. This segment has driven about 60% of our total revenue of FY24.

Talking about assemblies and fittings , this has accounted for almost 33% of our total revenue, and this is the segment that will remain a focus area for the company, and we aim to enhance our value-added products in this segment to increase our overall product portfolio.

Other segments such as braiding, interlock hoses, and composite hoses collectively contribute the rest of the FY24 revenue.

I would also like to update everyone that we have recently acquired a company which is Hyd Air Engineering Pvt. Ltd. This marks a significant milestone in our journey. We acquired Hyd Air Engineering for a total consideration of INR17.20 crores, and it was entirely funded by internal accruals. This acquisition will help us to provide end-to-end solutions from hose and fittings to complete assemblies, thereby strengthening our overall value proposition and also enhancing the customer satisfaction.

It will also help in the reduction of our product lead time. With this strategic move, we are also expanding our presence into key sectors such as railways, shipbuilding, and heavy industries, thereby gaining entry to a distinguished client base that includes the likes of Mazgaon Dockyard ,, SAIL, BHEL, JSW, Arcellor Mittal, KSB Pumps, Tata Powers, and so on.

Now talking about our capex that we have undertaken.

During the quarter we have successfully concluded the expansion of 1 million meters bringing our total capacity as of 31st March 2024 to 13.5 million meters per annum.

The phase 2 of our capacity expansion is progressing as I discussed and with no delays reported. In the phase 2, the company intends to increase the capacity to 16.5 million meters per annum that is an additional 3 million meters and the same should be completed by December of this year.

In addition to the above, we are also completing the addition of three lines in the composite hoses production and the same should be completed by Q2 of FY25.

And lastly, the expansion of a new project of metal bellows that we have planned to undertake in two phases, with a total capacity of 300,000 pieces annually at the end of phase 2 and as part of the phase 1 with a manufacturing capacity of 120,000 pieces per year and the same is also expected to be completed by December of this year.

Now looking ahead to this current financial year we are highly optimistic about increasing our market presence in our biggest market which is North America and also expanding and increasing our market share in the Middle Eastern region.

We are confident in our capabilities to capitalize on the emerging opportunities and to drive sustainable growth for our company. Our goal is to sustain growth momentum in the medium to long run, and for the upcoming years, we expect our margins to grow upwards of 25% or more.

In line with our commitment to transparency and accountability, we continue to provide the regular updates on our performances and our strategic initiatives, ensuring that all our investors are well-informed and confident in their investment decisions.

Talking about our financial performance,

our total income stood at INR79 crores for Q4 FY24,

our EBITDA came in at INR15 crores, and our EBITDA margins stood at 19.9%, and our profit after tax for this quarter came in at INR10 crores.

And talking about the full year, which is FY24, our total income stood at INR317 crores that is a growth of 18 percent over last year.

Our EBITDA came in at about INR65 crores which is a growth of 24% as compared to last year. Our EBITDA margins stood at 20.4% and our PAT stood at INR41 crores which is a growth of 38% on a year-on-year basis.

Exports contributed 84 percent of our revenue, and it was mainly driven by North and South America and the European regions.

I'm also happy to share with everyone that the Board of Directors has recommended a final dividend of 12.5% which is 0.25 equity shares, of which 2 each subject to the approval of the shareholders at the ensuing AGM.

We believe that a strong balance sheet and with zero debt in our company.

It will help us to expand and capitalize on any opportunities arising from both traditional and new-age industries, and it will also give us the financial leverage to consistently deliver high-growth margin and profitability to create value for all our stakeholders.

With this, I would like to conclude the presentation and open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Yes, thank you for the opportunity, sir. Sir, for FY24, if you could share the stainless steel tonnage that you consumed and what it was in terms of growth?

Asad Daud: So, we don't measure our sales in terms of kgs because we are selling our products in the form of numbers and also in the form of meters because that is the way we sell our products. So, it is not on per kg or per ton basis. So, hence, I will not be able to share that details with you because some of our raw materials they also come in the number of pieces and not in kgs.

Pritesh Chheda: Still for hoses, if you don't mind and just share the tonnage number.

Asad Daud: Like I said, we measure it in the form of meters. I can give you the data for meters.

Pritesh Chheda: That I have noted 11.8 million meters with 32% growth.

Asad Daud: Yes, that's also there in our presentation, you can able to see in there. Because the reason why we do it in meters is because our production line, our entire operations work on the basis of meters. Even our customers when they buy it, they buy in the form of meters and not in the form of kgs. So, hence, the meters is a better indicator for us.

Pritesh Chheda: On the SS pricing side, if you could just tell us between '24 and '23, your stainless steel raw material pricing decline was how much?

Asad Daud: About 20% to 25%.

Pritesh Chheda: 22% to 25% which means your hose growth will be some 7%, 8% and balance growth came from the fitting side because your fittings proportion would have increased versus last year.

Asad Daud: Yes, so fitting the proportion has increased as compared to last year. So, last year the proportion of fittings to our overall sales was around 30% to 31% and this year is about 34% almost.

Pritesh Chheda: Okay. On the current capacity, this 13.5 million meters, let's say last year 11 million meters when you started the year. What is the optimum output on this 11 million meters? Because, when you say meters, there is different SKUs, smaller dia, medium dia, larger dia. So, what can be the optimum revenue possible on this 13.5 million meters at the end of FY '24 at the current steel prices?

Asad Daud: So, it depends a lot on the product mix. So, because our products, we are focusing our efforts more on the sales of assembly and that is where, just to give you an idea that in Q4 of FY '24, almost 40% of our sales was from the assembly section. So, we are focusing and trying to increase our sales of the assembly.

So, even at say for example 13.5 million meters, if we convert a majority of our sales into assemblies, you will see a significant jump in the top line because the assembly product has both better top line and also better margins on the bottom side.

Pritesh Chheda: That I understood. But if it was hoses, then what is the output possibility?

Asad Daud: So, difficult to give a number to it.

Pritesh Chheda: Can I ask it the other way round? Were you at optimum product mix last year?

Asad Daud: Our product mix actually changes. So, the reason is because of -- we have more than 80 lines of machinery and we manufacture right from a quarter inch to all the way up to 14 inches and different machines are devoted to different. And the production capacity also for each machine is different, the output is different, the customer segment is different. So, that is why to give you an exact number might not be possible.

Pritesh Chheda: And my last question is sir, we have seen a continuous increase in the fitting proportion. You said last year was 30%, this year is 33% and quarter four was 40%. And you have been always saying that fittings margins are significantly higher than the post margins. Then why is it that the EBITDA margins haven't gone up?

Asad Daud: So, if you see on a year-on-year basis, our EBITDA margins has increased by almost 75 basis points. So, if you compare to the last quarter…

Pritesh Chheda: So, I am looking at the last trailing four quarters. The quarter one was 19, quarter two is 21, quarter three is 19 and quarter four is also 19. So, all these quarters the fitting share has moved from 30% to 40%. There is a 10% extra share, right?

Asad Daud: There are two reasons. One is if you see our gross margins has increased. So, that means our fittings have contributed at a better. But if you see our selling and distribution expenses has also increased significantly which was not expected. Reason being is because of the Red Sea crisis. First, the availability of the containers was an issue in the last fortnight of December and which also moved on to parts of January and some parts of February. Now, the availability of containers has smoothened out.

But even though the availability of containers has smoothened out, the prices of -- freight cost has increased. Last year in FY'23, the freight cost has actually come down and even in the first part of FY'24, the freight cost has come down. But because of this Red Sea issue, the freight cost has again gone up like how it went up during the COVID times. Obviously, not at those levels but at a significant level as compared to the last two quarters. So, hence if you see our gross margins has increased. But our EBITDA margins has also increased but obviously not up to that level because of the increase in the selling and distribution costs.

Also, we are undertaking this new project of bellows, of composite hoses, of the expansion. And there are a few project-related expenses which are also a part of the P&L. But that's the long-term expenses. But obviously, they affect the P&L. Hence, you will see that the uptake in

EBITDA margins is not as high as what it should be. Although it is, in practical sense, much higher.

Pritesh Chheda: Okay, sir. I will come back if I have more questions. Thank you.

Asad Daud: Sure. Thank you.

Moderator: Thank you, sir. We have our next question from the line of Nilesh Doshi from Green Lantern Capital. Please go ahead.

Nilesh Doshi: Yes. Thank you for taking my question. I have a couple of questions from my side. One is, I think you export more than to 80 countries and I think your larger export is to U.S. Just explain me how the business works. It is like you appoint dealers, distributors over there or it is directly B2B to the user?

Asad Daud: We have a mixed model. Basically, we have three sets of customers across the world. One is the OEM that we supply directly to. The other is through distributors who supply our product. They stock it in their warehouse and then they supply it to the assemblers in their countries. And the third is that we supply it to the assemblers and they then sell it in their own country.

So, this is the three. In the U.S., predominantly our sales comes from one is OEM and the second is the assemblers who buy either the semi-finished product, which is the whole or the final assembly from us and they stock it in their warehouse and then they supply to their end customers. That is how the business works.

Nilesh Doshi: So which is the largest OEM or industry which buys particularly in U.S. from us? Is it refining, is it steel or which are those?

Asad Daud: So, the two major industries that is buying from us is one is oil and gas and refineries and the second is firefighting.

Nilesh Doshi: In both the cases, you would have underqualified consultants, I believe.

Asad Daud: In firefighting, we are supplying directly to the OEM. In oil and gas, we are supplying to our assembler and the assembler is registered in the OEM as a vendor because they not only supply our products but they have an entire basket of products that they supply to the end OEMs.

Nilesh Doshi: Historically, if I look, these products were being probably imported by them initially maybe from Europe or from China and now we are seeing that shifting to India. So, you have any comment that what is changing or is it the price or it is now…?

Asad Daud: Actually, in our case, China is not a competitor. Basically, in the U.S., we are actually facing a competition. One is obviously from European manufacturers but the other is also from U.S. manufacturers. So, there are a lot of manufacturers of this product in the U.S. itself because this is being a very critical component and used at very critical junctions in the manufacturing plants. Hence, we face a lot of competition from actually made-in-America products and that is why the time taken to shift a customer in our industry generally is longer.

Price is not the first concern for these customers. It is about the quality of the product and the quality of our processes, our systems, our manufacturing capabilities, our entire production flow. So, they look at all of these things first and then it comes to pricing at a later stage. Hence, actually, we are competing with the U.S. manufacturers and the European manufacturers.

Nilesh Doshi: So, in terms of quality and the testing for whatever pressure you supply, you have all those facilities in India?

Asad Daud: Yes. Our lab is NABL certified. Also, we are in the process of completing the BSIR registration certification for our quality lab. So that means that we can also supply to the different industries in India and we have all the international certifications which are required for our products. So, that is why if you see that right now North America and especially the U.S. is actually our biggest market in terms of a single country.

And that is the reason why we have been able to penetrate the US market is because of our quality of our products and the testing certificates and the testing lab that we have and obviously our entire process. But yet, there is a huge scope for growth in the US itself because there are many, many companies and many, many OEMs which are buying this product in larger quantities but they are currently buying directly from manufacturers based in the US itself.

Nilesh Doshi: And in the export, largely does it come from the replacement demand because this being a consumable, I would believe, then the new projects also?

Asad Daud: Yes. So, those existing customers generally, they have a replacement demand where they need to periodically replace this part or this flow system in the manufacturing process and when they come up with an expansion or with a new facility or a new manufacturing unit, that time there is a new demand for a project order. So, we define it as project orders and regular orders.

Nilesh Doshi: And typically, what is the lead time for supply for these kinds of orders?

Asad Daud: So, especially in case of a project order, we generally take about 3 weeks to a month unless it is something which is extremely different or something which is extremely new for us, that might take about 2 months. But generally, if it is something that we have already developed and we have the expertise, it takes about 3 to 4 weeks. And for regular orders, we have the capabilities to supply in even 2 to 3 weeks. Like from the date of order to dispatch, within 2 to 3 weeks, we can dispatch from our factory and then obviously the lead time from India to the US.

Nilesh Doshi: And with what payment terms or through LC?

Asad Daud: No, so generally in our industry, none of the customers or none of the OEMs, they work on LC basis. So, US although being the biggest market for us is also a credit market. And sometimes what happens is even if our payment terms is payment on delivery of the goods, because of the transit time from India to US and obviously because of this Red Sea, so the routes have changed and the transit time has become longer. So, sometimes our payment comes within 50 to 90 days also.

Nilesh Doshi: And any working capital, I mean in terms of performance guarantee or get blocked with the buyers?

Asad Daud: That happens only in case of the Indian companies, especially some large ones or especially in case of PSU tenders where they have the requirement for a bank guarantee or for a performance guarantee. In case of large companies in the foreign countries, we have to take a third party product insurance.

Nilesh Doshi: Lastly, on the HVAC side and solar, I mean last year we had any revenue from this sector?

Asad Daud: Yes, so HVAC is a segment that we have, that we are building already. And solar is a segment that we have just recently started. We have supplied a couple of containers last year and we are working on a new product for the solar industry. So, in this year our focus would be, in this year and the upcoming years, we will also develop a specific hose for the solar application.

Nilesh Doshi: So, for solar would be rubber hoses, right?

Moderator: Sorry to interrupt, I would request you to rejoin the queue as there are several participants waiting for their turn.

Asad Daud: I will just complete the answer that for solar it is the SS hose and there is an EPDM covering on top.

Moderator: Thank you. We have our next question from the line of Mahesh Bendre from LIC Mutual Funds. Please go ahead.

Mahesh Bendre: Hi sir, thank you so much for the opportunity. Sir, given the opportunities that you spoke about in international market, US and Europe, what kind of growth we are expecting over the next 2-3 years and in the backdrop of recent acquisition as well. So, if we add this together, what kind of volume growth we are anticipating?

Asad Daud: Hi Mahesh. So, we acquired Hyd airr from the major objective of backward integration where Hyder can manufacture a lot of the fittings that we are currently buying from outside and it will also help us to first reduce our product lead time where we will be able to deliver products faster and with an even better quality to our customers. Also, it will help us to enter into new segments like railways and ship building and heavy industries where Hyd air is already supplying its products.

With regards to the target over the next 3-4 years, our target over the next 3-4 years is to grow at the same percentage as we have grown over the past 3-4 years with a strong focus on both organic and inorganic and also a focus on increasing our bottom line. So, we want to enter into those product segments which have a much higher bottom line as compared to our existing products. So, ultimately going into higher value added products.

Mahesh Bendre: Sir, I mean, maybe 3 years down the line, our revenue composition will change. I mean, now export is a major contributor for us. So, given the new acquisition…

Asad Daud: So export will continue to remain our major focus. Although, like in terms of percentage points, it might go up or down a few percentage points but we are expecting in the next three to four years, export will continue to contribute at least 80% to our overall sales. Because even the products of Hyd-Air, we are planning in the future to also export the products of Hyd-Air. So, our focus over the next four to five years will continue to be on exports.

Mahesh Bendre: And sir, for total revenue, you just mentioned that typically we measure our orders in terms of regular order and project orders. So what is the contribution for FY'24?

Asad Daud: So, on an average, our project orders are about 20% of our overall orders.

Mahesh Bendre: So, 80% basically our revenue comes from the orders which come from the replacement side?

Asad Daud: Replacement side, yes. It's called maintenance replacement.

Mahesh Bendre: So, this is like a recurring business?

Asad Daud: Yes, that's a recurring business. So that depends on customer to customer, segment to segment. So, some companies, they have their norms of replacing the products once every six to nine months. Some companies have a replacement cycle of one to one and a half years, some have a replacement cycle of two years. So it depends on company to company, on industry to industry.

Mahesh Bendre: Thank you so much, sir.

Asad Daud: Thank you so much.

Moderator: Thank you, sir. We have our next question from the line of Gokul Maheshwari from Awriga Capital Advisors. Please go ahead.

Gokul Maheshwari: Yes, thank you for the opportunity. Sir, I have a question on the industry structure. You mentioned about that you compete against the U.S. companies operating within the U.S. when you're exporting to the U.S. market. Could you sort of elaborate in terms of Europe and U.S.

markets, who would be the market leader and what is the construct of the industry in terms of number of players and whether it's fragmented or consolidated markets?

Asad Daud: So, in terms of competition, we have some very large players who are competition both in the U.S. and in the European markets. So, the likes of Parker, which is a multinational company that is present in North America, South America, even in India, in Europe, in Asia, everywhere. Then there is Senior Flexonics based out of the UK. Then there is Witzenmann a company which is based out of Europe. Then there is Eaton Corporation, I think, which is based in the USA but it's, again, a global company. So we have some large companies against whom we compete both in the USA market and in the European market.

Gokul Maheshwari: And in that sense, what is your edge versus these companies where you are able to win market share in the overseas markets?

Asad Daud: So, when I talk about a competition with these companies, right? So, we are competing with a giant. So, they have their own set processes and their set, you know, parameters that they work with. Our philosophy is slightly different is that when we work with our customers, we work to first identify their pain points about what are the issues that they are facing with their -- if they are already buying from somebody else, so what are the issues that they are facing from them and how we can resolve those issues?

Secondly, in terms of our quality, in terms of our delivery times also, you know, obviously not considering the lead time, because that is not in our control, but in terms of the delivery time from date of order to date of dispatch, in terms of the entire basket of products. So we can manufacture, like I said, right from 0.5 inch all the way up to 14 inch diameter from one location plant. So, the ability for customers to buy a wide range of products from one supplier, obviously, like I said, about the quality of our products and the quality of our service, and all of that at a very good price.

So, it is a very, you know, compelling prospect for any customer to look at Aeroflex as a preferred vendor. And hence, that is the reason why we have been able to continue our position as number one from Asia in terms of our product segment.

Gokul Maheshwari: What would be your market share in India, U.S. and European markets?

Asad Daud: Overall, if you see the entire stainless steel flexible hose market, if you see, our market share would be about 1% to 1.5%. Overall, in India, from the organized sector, I think our market share would be, I am assuming, almost 30% to 40%, if not more. And in Europe, it will be hard to say a specific number because I have the data for the entire world.

Gokul Maheshwari: Okay, fine. And what would be the breakup of the organized and unorganized?

Asad Daud: Organized and unorganized in India?

Gokul Maheshwari: Yes.

Asad Daud: I will not have that number right on top of my head. So, I will probably get back to you offline on that number.

Gokul Maheshwari: Lastly, just on the promoters, we have two sets. One is the Sat Industries and there is Italica Global. So, what is this Italica Global?

Asad Daud: Sat Industries is basically a promoter company and Italica Global is basically a subsidiary of Sat Industries based in the Middle East.

Moderator: Ladies and gentlemen, we have our next question from the line of Ashutosh Adsare from Universal Sompo General Insurance.

Ashutosh Adsare: Just a few questions. You had mentioned that because of the Red Sea crisis, the availability of container was an issue, hence that impacted the margins. So, I just wanted to understand, did you see any revenue impact also for the quarter Q4 and if yes, how much would be the revenue impact for Q4?

Asad Daud: So, in terms of the freight increase, because of the Red Sea crisis, there was a significant jump in the freight, especially the ocean freight. That is still ongoing in terms of the hike in the cost. In terms of the impact on the revenue, so like I said in my earnings call of last quarter, about 10 to 15 days of our sales of Q3 were impacted.

And the same was actually carried forward on to Q4. Also, what happened is that because of the delays in these containers, the orders also got delayed because the customers tend to postpone their deliveries. So, hence I think by Q1 of this financial year, I think the entire carry forward of revenues would be completed.

So, in terms of exact numbers, it would be hard to say, but I can tell you about 10 to 15 days of revenue got impacted in December. And the same number of days of revenue got impacted in Q4 as well.

Ashutosh Adsare: Could that be quantified as INR20 crores to INR30 crores of impact in Q3 and Q4 together, which we will see in Q1 of FY '25?

Asad Daud: So, what happens is ultimately these revenues get shifted. So, the revenues of this quarter will be shifted to Q1. Some of the revenues of Q1 might be shifted to Q4. Also, what we saw unfortunately is because of some of these, the Red Sea crisis, some of the orders from our customers, they have delayed it to the future quarters. Also, in case of where they had extremely immediate requirements, the European customers, they bought from nearby countries, especially Turkey. And the US customers, they bought from the US itself.

So, some impact of this Red Sea crisis also has happened on our order flow also. But we are working with our customers to smoothen that out. And hopefully, in this year, we are expecting to do much better business from them.

Ashutosh Adsare: Yes, just wanted to understand in the remarks and the presentation, you also said that EBITDA growth will be 25% in the coming years. So, could you tell how would you achieve that? And what would be the revenue growth opportunities in the geography in which product line you are seeing? And last question is on the metal bellow. How much did it contribute in Q4?

Asad Daud: So, I'll answer the last question first. In terms of metal bellow, the project has still not been started. So, we have placed order for the machines and we have placed the order for, all the ancillary equipments and the testing equipments.

So, the project itself would be completed by December. So, the real impact of this project, you know, you'll be able to see in the next financial year. Because once we start the production, obviously, the first couple of months goes into a lot of trials and tests.

And then, obviously, the real impact would be seen after that. So, metal bellows, currently, there is no contribution of metal bellows to our current sales. With regards to the EBITDA, growth that we expect in the upcoming years.

So, one is that we are solely focusing our sales from hoses to assembly products. So, when we do that, automatically, our margins increase because the assembly product has better margins as compared to when we sell the hose, in roll form. So, that will help us increase both our top line, but it will also help us increase our bottom line to a much greater extent.

Ashutosh Adsare: Okay. And the geographies you would be focusing on apart from North America and Middle East?

Asad Daud: So, geographies our focus this year is North America and Middle East. Because Europe, you know, is a market which has almost flattened out. And obviously, you know, Europe has its own issues with regards to the economy.

And also, our focus, although Europe will remain our number two market after the US, but our entire focus of our team is to build the business in the USA and also in the Middle East region. Because the Middle East also has a lot of potential which we have not yet encased.

Ashutosh Adsare: Okay. Last question on my side, with the China reopening, are you focusing on that geography as well?

Asad Daud: No. So, right now, we are not focusing on exporting our products to China. You know, we, because, and obviously, in terms of competition, China is actually not our competitor in this segment of ours.

It's mostly like I said in the earlier answer that our competition comes from European and US manufacturers. So, China is not our focus right now.

Ashutosh Adsare: That's all from my side. I will come back to you. Thank you.

Asad Daud: Thank you so much.

Moderator: Thank you. We have our next question from the line of Saurabh Shan from AUM Advisors Please go ahead.

Saurabh: One question was here regarding, as you mentioned, the extra freight costs due to the geopolitical issues and all that. Going forward, are you planning to change that at all? So, you reduce the variability in your margin these kind of extra costs. Are you able to pass this on or build [works or something like that?

Asad Daud: So, actually, when, you know, when COVID happened and at that time when we saw a significant increase in the prices of the prices of the containers. So, you know, at that time also we had taken a call and we worked with our partners. Obviously, that some of the costs would be borne by us and some of the costs would be borne by them.

So, we work on a mixed model of FOB and CIF. So, some of the customers, they are on FOB basis. So, in that, we don't have to bear the freight costs.

But on the other hand, in that, we face the cost of increasing, you know, in inventory because if the freight cost is very high, so the customer tends to delay the booking of the container. And in case of CIF, obviously, since we have to bear the freight cost, that leads to direct impact on the bottom line. But the advantage in that case is obviously that the inventory and the booking is in our control.

So, we don't face the cost of the inventory. So, we always try to make sure that we, you know, balance it out. And we are always in touch with our customers, you know, with regards to any increase or even, you know, in decrease in the freight cost.

So, whenever there is an increase in the freight cost, we also speak to our customers and try to pass on as much as possible. And similarly, when there is a significant decrease in the freight cost also, we try and speak to customers and pass on the benefit to them as well. So, we work on both aspects with our customers.

Saurabh Shah: So, again, staying on the same question, so this time if you take out those aspects where, your customer didn't, make up for the extra cost and all that, then what, in assuming the same basis as last year, how much would you EBITDA margin, kind of get impacted by this extra cost?

Asad Daud: Obviously, I won't have the exact details, but I would say at least 25 to 30 basis point minimum, the EBITDA margin would be higher at least.

Saurabh Shah: The next question was, I think you addressed it earlier, I just want to clarify. So, in terms of, what is the total market for, the replacement and the project kind of supplies in the US? And, how do your current, the current SKUs, what kind of eventual market, can you target? Give us a sense of that.

Asad Daud: The overall market globally is about, 3.5 billion for just the stainless-steel flexible, hose market. We have about 1% to 1.5% market share. But, like I said, that the market, and obviously a large portion of that market is from US and Europe, because, of the demand from those sectors. And that is where you see that the bulk of our revenues also, almost about 70% of our revenues is from those two markets.

So, bulk of our market is also there. And the focus of, and our focus also in this financial year is obviously on the US market. And, another is the Middle East market, because that is an area we feel that there is a demand for our products. And we feel that is an opportunity that we have still not yet in cash. And that is, where we can see some good potential in the upcoming years.

Saurabh Shah: What I meant was, for the current SKUs, but not the total market theoretically of these steel products? For example, what you have capacity for and you have certifications for, how large is that market?

Asad Daud: It will be hard to give a number for a specific SKU based market, because I am talking about the market for the SS flexible hose. Some SKUs or some products may fall in it, some products may fall out of it. So, it will be hard to give a specific number, based on the SKUs that we have. Because generally, in our industry, right now we have about 2400 SKUs. Last year we had about 1700 also. So, every year we build up our SKUs to cater to the needs of the end customer.

I will just give you an example like one of the companies, one of the large MNCs who is our competitor. They have, I think, more than 50-60 thousand SKUs from the data that I have, their last data. So, the more product segment you enter into, the better you can cater to both your existing customers and your new customers.

And that is the reason why if you see that we have entered into compositors and into metal bellows, because a lot of our customers are already buying this product. And also a lot of our potential customers who were not able to capture, but one of the reasons is that because they wanted somebody who can supply them a basket of products. They might not have, a full container requirement of the assemblies.

But they might have half a container requirement of assemblies and a full container of composite hose and a quarter container of bellows. So, by increasing our product portfolio, we are able to cater to a larger customer base.

Saurabh Shah: What company is this? Sorry, you mentioned this company with 50,000 SKUs. What's the name of this company?

Asad Daud: Parker, Parker Hannifin. Overall, they must be having, I think, lots of SKUs. But in our product segment or in the segment that we are in, or we can, enter, they have, I think, about 50,000 SKUs, you know, from the data that I have. Parker is a listed company, so you can probably go on the website and, you'll be able to get all the details.

Moderator: Thank you, sir. We have our next question from the line of Depesh Kashyap from Invesco. Please go ahead.

Depesh Kashyap: Yes, hi, thanks for taking my question. Sorry, I Asad I joined late, so pardon me if there's a repetition. But I was looking at slide 17, where you have given the production data, right?

So, in hoses, you have given that 32% growth in the production volume of hoses. And also, I think you have mentioned that the proportion of your value added products, that is fittings, has increased. So, when the production has increased by 32%, the proportion of value-added has also increased. So, why does revenue has increased only by 18% in FY '24? And also, growth in the volume, right? So, if you can just explain that.

Asad Daud: Raw material prices has decreased by about 25%.

Depesh Kashyap: You think the price, so you have passed on the prices?

Asad Daud: So, some of the pricing, we have to pass on. So, I don't think we are in an industry where I can take that into account.

Depesh Kashyap: No, right. But still I am saying that your gross margin, if I look at, last year it was 36.9. And right now it is 36.6 only. So, when your proportion of fittings has increased, ideally the gross margin should have increased?

Asad Daud: The cost of the fittings have not gone down. So, in our case, the raw material when I talk about is the coil and the wire. But the fittings are such that, so what happens is, sometimes, say for example, the hose could be INR100 And the fittings that go on to the hose can be of INR100 and sometimes the hose can be of INR100 and the fitting that goes on the hose is of only INR10. So, that is the difference that the gross margin can go up. Also, because of the fittings, it is basically as required by the customer. So, the more complicated the fittings, the better the margins for us.

Depesh Kashyap: And the fittings you are not doing in-house, you are basically outsourcing it, right? You are taking it from outside?

Asad Daud: Yes, till, obviously, right now also we are outsourcing. In this year, we plan to slowly-slowly phase out the outsourcing and to the extent possible, whatever Hyd-Air can make, we will be shifting slowly-slowly to production from Hyd-Air itself.

Depesh Kashyap: Okay, so when your raw material price of fittings has not gone down, so maybe you are not passing also, right? Your final product price is also higher in fittings. So, ideally the revenue growth should have been higher, right? So, just not trying to understand the dots, right?

Asad Daud: No, it is a product mix that works. So, what happens is, sometimes when we sell larger sizes of orders, in terms of the large diameter, in that the gross margins are higher. But when we sell the smaller diameter, the gross margins are slightly lower. So, our gross margins also depend on the type of product that we sell, the diameter of the assembly that we are selling, the final assembly that is being welded onto the hose. So, there are a lot of parameters on which it depends. Also, if you see that despite the decrease in the raw material prices, our volume sales have gone up. And that shows that if in case of a constant raw material prices, we would have had a much higher turnover.

Depesh Kashyap: Okay, so secondly, you are guided for 25% of EBITDA growth, right? So, ideally your margins should go up as your fitting proportion is going up. So, how are you basically building up the revenue growth? Because I think your capacity is increasing everything. So, ideally your revenue growth should be 20%-25%, right? So, why the EBITDA growth is just 25% you are giving guidance on?

Asad Daud: So, So, one is because of the increase in the freight cost, right? This is something, if in case the freight cost over the next one year goes down, then obviously our margins would become better.

But that is something which I cannot predict right now. So, hence on the current, you know, higher freight cost, we have taken the growth. Secondly, also that we have a lot of new projects that are, you know, ongoing.

And some of the cost of the projects are impacting the P&L, which ultimately over the next couple of years might, you know, you will be able to see the results of that, you know, in the top line as well. So, in our industry, we work, you know, more from a long-term perspective because it's not like a consumer industry or it's not like a normal commodity B2B business where you have, you know, every quarter-based performance. So, because our projects and a lot of our new customers, especially the OEMs, the customers, they take almost sometimes a year to two years to onboard.

And after onboarding, you know, they give a small order and then over the period of next three to five years, their order flow, you know, increases. So, in our industry, it's, you know, we play on a longer term cycle. So, right now, our team, some of our team members are actually working on certain projects that we are planning to have in the next financial year.

So, we have to work on, you know, on the future aspects because of the longer cycle of our customers. Understood.

Depesh Kashyap: So, lastly, you're basically building on the EBITDA margin to remain similar. You're guiding 25% growth. But the EBITDA margin goes up, obviously the growth will be higher. That's the understanding?

Asad Daud: Yes, yes. So, obviously, so, you know, we are being, you know, conservative, yet we are being aggressive in the sense that I'm expecting our growth both in terms of the decline and the bottom line to be better than last year. Our margins, our EBITDA margins in terms of, you know, basis points should be definitely much higher in the current FY as compared to the last FY.

And overall, over the next four to five years, our EBITDA margins should come to about 25-odd percent in terms of margins.

Depesh Kashyap: Got it, got it. Thank you and all the best.

Asad Daud: Thank you.

Moderator: Thank you, sir. We have our last question for today from the line of Nitin Gandhi from Inoquest. Please go ahead. Mr. Nitin, are you there? Hello.

Nitin Gandhi: Yes, hi. Thanks for taking my question. This is Metal Bellows. When is the Phase 2 likely to be operational? And what's the amount you're going to spend?

Asad Daud: So, once the Phase 1 is streamlined, then we'll be looking at the Phase 2. You know, so the Phase 1 is planning to be completed in December. And once the entire production is streamlined and the production is up and running on a smooth basis, at that time we will, you know, start the investment for Phase 2.

Obviously, the figures have not yet been finalized in terms of the capex because we'll wait till Phase 1 is, you know, is completed. And then we will look at the Phase 2 expansion to start.

Nitin Gandhi: How much amount is for the Phase 1 capex?

Asad Daud: About Rs.45 crores.

Nitin Gandhi: And what is likely asset turnover of that?

Asad Daud: Our asset turnover ranges in the range between 4 to 5 times. But in case of Metal Bellows, you know, because it is a new project, a lot of the machines that we are buying, it will be actually used for both Phase 1 and Phase 2. So, some of the machines that we are using, it will be used for both Phase 1 and Phase 2. So, the real asset turnover, the final, you know, asset turnover ratio, you'll be able to analyze only once Phase 2 is completed and fully operational.

Nitin Gandhi: So, in that case, for Phase 2, capex will be a little lower than the Phase 1?

Asad Daud: Yes.

Nitin Gandhi: Okay. And as far as assembly fittings stations are concerned, are you likely to increase to beyond current 29 to what level?

Asad Daud: So, yes. So, currently, we have increased. So, we are already planning to increase our welding stations. Right now, we have...

Nitin Gandhi: 21 and it will be 29 by...

Asad Daud: We are increasing to 29 over the next couple of years. This will, at minimum, double, you know, if not more.

Nitin Gandhi: So, in one year, we'll be at least looking forward to be 45.

Asad Daud: Yes, minimum.

Nitin Gandhi: Okay.

Asad Daud: Also, we are looking at working on some semi-robotic assemblies. We are looking at semi-robotic assemblies where a part of the assembly section will be developed, you know, through the help of a robot. So, we already had one machine. Right now, it is, you know, under testing phases. So, if once that happens, then, surely, our assembly section will also be, you know, automized and robotized. So, the next three to four years, you know, we plan to have a substantial automation in our assembly section. Also, this 29 welding stations. So, we recently added eight stations in the month of March itself. So, before March, we only had 21.

We increased it to eight. And now, since we are increasing our focus in the assembly business, we are planning to have much more welding stations to increase our sales of the assembly products.

Nitin Gandhi: What is the spend on the eight stations which you implemented in March?

Asad Daud: What is the...

Nitin Gandhi: What is the amount spent for adding eight stations in March 24th?

Asad Daud: That's about INR 2 crores approximately. I'll have to check the exact...

Nitin Gandhi: Approximately INR25-INR27 lakhs per station. That's the benchmark.

Asad Daud: Because right now, it's more manual. So, hence, the cost is lesser. But once we go... But obviously, the recurring cost is higher. But once we go into automation and robotics, the initial cost will be higher. But obviously, the running cost would be much lower.

Nitin Gandhi: Okay. And any aspiration of how much percentage of value-added you are planning in next three years, if you can share?

Asad Daud: Aspiration of... Sorry?

Nitin Gandhi: What will be the sale from value-added products in next three years? Right now, it's comparatively low. And your focus is to...

Asad Daud: Right now, it's... Yes. Right now, it's about 33%, you know. Like, for us, value-added products is basically assemblies and fittings. So, right now, it's about 33% of our overall sales. Over the next three to four years, we expect that majority of our sales would come from these value-added products.

Nitin Gandhi: So, it will be 55-60 in that case, if it's your target.

Asad Daud: To give a number, I would say about 60%. 60% to 70% on a ballpark figure.

Nitin Gandhi: Thank you. And all the best.

Asad Daud: Thank you.

Moderator: Thank you, sir. As that was the last question for today, I would now like to hand the conference over to Mr. Asad Daud for closing comments. Over to you, sir.

Asad Daud: Thank you so much, everyone, for joining today's call. And thank you for all your questions. Even if you have any other questions which I might not have been able to answer or you might not have been able to ask, I would request you to please share it with SGA our investment advisor.

To conclude, I would like to extend my gratitude to everyone for joining the call today. Our focus in this financial year would be to increase our capacity to start the production for our Bellows project and also to expand both the brand equity and the market position of Aeroflex in our industry. Once again, thank you so much, everyone.

If you have any questions or any information, like I said, you can get in touch with me also or you can get in touch with HGA, who is our IR advisor. Thank you so much, everyone. Hope you have a good week ahead.

Moderator: Thank you. On behalf of Aeroflex team, that concludes this conference. Thank you for joining us and you may now disconnect your lines.