November 11, 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 November 05, 2024 for Q2 & H1FY25 Results

In continuation to our earlier intimation dated November 05, 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, November 05, 2024, at 11:00 a.m. (IST) for Q2 & H1FY25 Results.

The transcript is also available on Company's website at

https://www.aeroflexindia.com/wp-content/uploads/Transcript-of-Q2-H1FY25-Earning-Conference-Call-held-on-November-05-2024.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
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Govt. of India Recognised Export House

"Aeroflex Industries Limited

Q2 and H1 FY '25 Earnings Conference Call"

November 05, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 05th November 2024 will prevail."

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

Moderator: Ladies and gentlemen, good day and welcome to Aeroflex Industries Limited Q2 and H1-FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to the management. Thank you and over to you, sir.

Asad Daud: Thank you so much. Good morning to everyone. First of all, I wish all of you a very happy Diwali and a prosperous New Year. I'm delighted to welcome you all to our Q2 and H1-FY '25 Earnings Call. With me today are the members of our management team and representatives from SGA who is our Investor Relations Advisor. I hope you had the opportunity to review our financial results and the investor presentation which is available on the Stock Exchange's website and also on our company website.

At Aeroflex Industries, we are committed to innovation and flexibility, positioning ourselves as leaders in providing high-quality products that meet diverse industry needs. By leveraging cutting-edge technology and the expertise of our dedicated team, we aim to deliver exceptional value to our clients while fostering sustainable practices. As a key player in the engineering sector, Aeroflex is driving the progress and shaping the future of the industry, all while maintaining a strong reputation for reliability and performance.

I would like to thank you all for being here today and I look forward to discussing our results with you. We are pleased to announce a 13% year-on-year revenue growth for Q2-FY '25. As we enhance our product offerings, we are moving from traditional hoses to advanced hose assemblies, a strategic initiative that aligns with our long-term vision for value-added products.

In Q2, the total income increased to a record INR95.8 crores, marking a 13.5% increase from Q2 of last financial year. This growth was primarily driven by a significant 38% increase in the assemblies and fittings business, which increased from INR27.46 crores in Q2 of last year to INR37.89 crores, indicating a shift towards more value-added products with better margins.

For H1-FY '25, our total income reached INR186.58 crores, which is an 11% increase from INR168.35 crores in the first half of the last financial year. And the assemblies and fittings business witnessed a growth of 52%, increasing from INR45.5 crores to almost INR70 crores in the first half of this financial year. Overall, while the total income shows a positive growth, we have also successfully capitalized on the momentum in the assemblies and fittings segment.

In the first half of this financial year, we have achieved a significant increase in our gross margins to approximately 40%, up from 36% in the first half of last year. This reflects an increment of 400 basis points. This improvement can be attributed to our enhanced procurement strategy, which has led to cost optimization, as well as innovative solutions developed by our engineering team.

Additionally, the increase in sale of the assembly's business also contributed to higher profitability. In Q2, we have achieved an impressive year-on-year EBITDA growth of 29.5% in absolute terms. Our EBITDA margins stood at 22.10%. Our EBITDA margins would have been even better if not for the additional cost that we bore with related to the shipping. In the future, we'll continue to focus on enhancing our offerings in the assemblies and the fittings business.

We anticipate that the introduction of the new robotic assembly will contribute significantly to our revenue growth, with a noticeable impact that we will see starting from the next calendar year. Our ambitious goal is to drive approximately 60% to 70% of our revenue from the assembly business in the next three to four years, positioning ourselves as a leader in this evolving market segment.

Now talking about our product segment highlights. The flexible hose segment still is a major contributor to our revenue, and it contributes about 52% to our H1 revenue. The assemblies and fittings business is now contributing almost 40% of our revenue for H1 of this financial year.

As I mentioned earlier that this segment will be a key driver to our business in the future, which will help us to enhance our margins and also position us for sustained growth. The interlock and the composite hose and the other products contributed approximately 8% to our overall revenue.

Now talking about our capacity expansion and our capex plans. Our capacity expansion is progressing as we planned. In the month of August of this year, we have added 1.5 million meters of capacity, bringing a total capacity to 15 million meters per annum. The remaining 1.5 million meters will be completed as per our schedule by December of 2024. We completed the acquisition of Hyd-Air in the month of April of this year. This acquisition is a very significant milestone in our expansion journey, enabling us to shift from providing just the hoses to complete assemblies, and also help us to enter into the railway, shipbuilding, and the heavy industry segment.

We are planning to invest approximately INR18 crores as capex in Hyd-Air over the next six quarters. The installation of new machines, the refurbishments of old machines, and the setup of a state-of-the-art quality lab at Hyd-Air is currently underway and is projected to be completed by the quarter. These machineries will enable us to increase our capacity and capability.

We are also pleased to announce that we have received the first trial order from Railway Coach factory in Hyd-Air, marking a significant milestone for our business. The railway sector presents a tremendous potential, and we see this initial order will be a strong foundation for the future growth of Hyd-Air. Talking about the Bellows business, we have started the installation of the machines for the phase one of the Bellows.

We have received the majority of the machines. Some other machines are expected to be received in this month and in the following month, and we will likely begin the trial production of the metal Bellows in this quarter. I'm also happy to share that our total capex spend is projected to be lower than our budgeted.

This has been made possible by the R&D work which has been undertaken by our engineering department. This saving will have a strong positive impact on our financials and will benefit all our shareholders. To conclude, as we move forward, our strategic focus will be on expanding our product portfolio with innovative solutions to meet diverse customer needs and also enhance our competitive advantage.

Our strategy includes diversifying offerings, growing our global presence, entering new edge sectors with value-added products, and forging strategic partnerships to drive growth. Coming to a few key financial performance, for the second quarter of FY '25, our total income stood at around INR96 crores with a growth of 13% on a year-on-year basis. Our EBITDA stood at INR21 crores with a growth of 17% on a year-on-year basis. Our EBITDA margins stood at 22.10 percentage.

Profit after tax for the quarter stood at INR14 crores, which is a growth of 18% on a year-on-year basis, and our PAT margin for the quarter was 14%. Talking about the H1 numbers, our total income for H1 was INR187 crores with a growth of 11%. Our EBITDA for H1 was at INR40 crores with a growth of 15%. Our EBITDA margins was at 22%. And the profit after tax for H1 was at INR26 crores with a growth of 15% on a year-on-year basis. Exports now contribute almost 83% of our overall revenue.

These were the financial numbers that I wanted to highlight. Lastly, our robust and our debt-free balance sheet provides us with a very solid foundation for expansion and also the ability to leverage opportunities in the new-age industries. This financial strength helps us maintain impressive growth margins and also the profitability which benefits all our stakeholders. Moreover, our focus on strategic inorganic acquisition of opportunities will also drive us closer to our long-term objectives.

With this, I would like to conclude my speech and open the floors for Q&A. Thank you so much, everyone.

Moderator: Thank you very much. We will now begin the question-and-answer session. Participants who wish to ask a question may please press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Hi. I have one question. Now on your 16.5 million meters capacity, which comes up by the year-end, the 16.5 million capacity at the current steel price, with the target of assembly that you have, what should be the optimum revenue from this setup?

Asad Daud: So, currently the 16.5 million meters capacity would be completed by December and would be commercialized in the next quarter. So, in terms of the revenue mix, considering that with our increased focus on the assembly business, this would take us close to approximately INR500 crores top line. Now with the assembly business percentage increasing, this number could be even higher.

Pritesh Chheda: So, at INR500 crores, what is your assumption of the assembly business as a percentage of the total hose?

Asad Daud: We would expect at least 50% of the business to be from the assembly business, as a ballpark figure.

Pritesh Chheda: In those 500 crores?

Asad Daud: Yes**.**

Pritesh Chheda: Okay. And this assumes optimum utilization of the asset or does it assume full production of hose?

Asad Daud: It depends a lot on the mix of the order that we get. So, for example, we have sizes ranging from a quarter inch to two to four inches.

Pritesh Chheda: Yes, I know that. But in this INR500 crores assumption, does it involve an optimum usage of the hose capacity with 50% assembly? That's how we should look at it?

Asad Daud: So, in some sizes we have additional capacity which we can deploy further. Also, post these 15.5 million meters of capacity, we are also planning right now to increase our capacity further in the next few years. The details of which will be shared probably in the next earnings call.

Pritesh Chheda: I understand the growth part, but I just found that on the current 16.5 million meters capacity that we have, if you try to understand that portion of 16.5 million meters only, with whatever assumption that you have on assembly portion of the hose , let's say 50% of the hose should go away in the form of assembly or 40% should go away, whatever is your target. At the current steel price, what can be the optimum revenue of this asset?

Asad Daud: I have just mentioned about approximately INR500 crores.

Pritesh Chheda: And here the assumption of assembly is 50% that you mentioned, right?

Asad Daud: Yes, 50%. If the assembly business increases, obviously the turnover would increase.

Pritesh Chheda: What is the assembly mix today?

Asad Daud: Today is around 40%, I mentioned in the speech, like in the last quarter, Q2.

Pritesh Chheda: In your opinion, when should you be able to achieve this optimum INR500 crores? Is it four quarters from now, eight quarters from now, 12 quarters from now?

Asad Daud: So, INR500 crores is actually a yearly figure. So, the aim would be that obviously to achieve it as soon as possible. But yes, so over the next year or so, we will be aiming to reach this target.

Pritesh Chheda: Okay. I have two accompanying questions on this. When you achieve this INR500 crores, what kind of margin expansion is possible? And you had a constraint on the assembly side in terms of the assembly line. So, has that constraint been resolved for you to take the percentages higher?

Asad Daud: So, what happens in the assembly line, the constraint is not fully resolved. It will be only resolved once our automatic assembly welding line starts. So, the first machine of that line is expected to be received by December. So, once that starts, then slowly we will be automizing our assembly line in terms of the welding stations

So, till that time, it has to be done manually because there is no other technology right now that automates it. And in terms of the constraints, so yes, obviously we have not yet fully resolved the constraints. It's actually, I would say, a good problem to have wherein we are getting more orders of assembly than what we can supply.

Another reason for the same is because the welding on our hoses, the hoses are an extremely thin layer of metal. So, for such a fine piece of metal, the assembly has to be extremely accurate. Hence, the welders undergo rigorous training of almost one and a half months before they go onto the assembly line of production because if an untrained welder is deployed on the shop floor, it might lead to higher losses for the company in terms of rejected materials.

So, hence, there is a certain procedure that we follow in terms of getting our welders from the day we hire to having them on the shop floor. So, that is one constraint that we are still facing, but we are working. So, if you see that we have added five more welding stations in the last quarter, we are also planning to add more welding stations in this quarter and also in the next quarter.

And hopefully, with the robotic welding, the first machine which is expected by December, once that arrives and once that is commercialized, I think we will start to see our production in the assembly line increase much further.

Pritesh Chheda: And on margin question, margin with INR500 crores?

Asad Daud: So right now, in this quarter, our margins were around 22.1%. We expect at INR500 crores margins to be better by at least 50 to 100 basis points.

Pritesh Chheda: Okay. And then the SS steel price would be down at least 15%-20% from the peak, right?

Asad Daud: Yes, from the peak. Even in this first half, the prices cooled down slightly, not much, but slightly. I think the prices for the stainless-steel right now is at a pretty low level.

Pritesh Chheda: In H1, how much is it down, the SS price?

Asad Daud: Approximately about 3% to 4%.

Pritesh Chheda: Thank you very much, sir. All the best.

Moderator: Thank you very much. The next question is from the line of Mihir Vyas from 9 Rays EquiResearch. Please go ahead.

Mihir Vyas: Can you give me some outlook about the Bellow industry, especially how are we poised in the industry and like in the last call, you said we can expect INR85 crores to INR90 crores turnover from the Phase 1. By when can we expect that?

Asad Daud: To answer your first question, the Bellow industry is actually a global industry with very few players in India right now. It's a highly technical industry, it started in the US 30, 40 years back. So, in terms of what we are looking at, yes, once the Phase 1 capacity is optimally utilized, which is about 80% to 90%, you will see a top line of about INR85 crores to INR90 crores on an annual basis. Obviously, we would want to reach this as soon as possible but since the Bellows is a highly technical product and it requires a lot of approvals, certifications, testing, you would see us achieving this top line in the next year and a half or two.

Mihir Vyas: Okay. And one clarification, you said for Hyd-Air, INR18 crores capex over next six quarters, right?

Asad Daud: Yes.

Mihir Vyas: In the last call, you mentioned something about inorganic acquisition. Which details you will share later in some international company. Any progress over that?

Asad Daud: So, we are still in talks with the company. Nothing has been finalized as yet. And apart from that, we are also looking at a couple of more opportunities, both in India and abroad. But obviously, once anything materializes, then we will be able to share it with the shareholders. So, as of now, things are under discussion at a very early stage.

Mihir Vyas: So, you said you will be adding more capacity for which details will be shared in next quarter or so. Can you just give me some ballpark number by like what capex the company is looking for?

Asad Daud: Like I said, once it is approved in the board, then we will be able to share because right now, it is still in the final planning stage. So, unfortunately, I will not be able to share it at this stage, but definitely in the next earnings call, you will have those details.

Mihir Vyas: Okay. Thank you. I will fall back in the queue.

Moderator: Thank you very much. The next question is from the line of Ravi Mehta from Deep Financials. Please go ahead.

Ravi Mehta: Thanks for this call. Just one question. The 1.5 million meters that you added in August, did it contribute anything in this quarter gone by or it is yet to contribute?

Asad Daud: So, in this quarter, there was hardly any contribution because it was commissioned in the month of August and only a small percentage of that was used in the month of September. So, the impact of the capacity addition would be seen in this quarter and the next quarter.

Ravi Mehta: Okay. And one question was this Bellows product that you are working on, what is the capex that you are going to put?

Asad Daud: INR43 crores capex for the Bellows project and this should be completed by December of this year and a few ancillary machines might be received in the next quarter. But we are planning to start the trial production in this quarter for the Bellows project. Also, I just wanted to update that we have also started receiving a few inquiries with regards to Bellows and we have started our work on the design of the Bellows because since it is a highly critical product.

So, a lot of the customers have their specific design requirements. So, we have already started working with the customers to prepare the design for their Bellows. And as soon as the trial production starts, we will be starting with the trial for those particular Bellow designs. And then obviously once they pass the certification and the testing, then we will see the business of Bellows starting up.

Ravi Mehta: The entire INR43 crores capex will be spent in the coming two quarters or anything is already spent?

Asad Daud: So, we have already spent some portion of it. Approximately would be about INR18 crores to INR20 crores already spent with something with the remaining to be spent in this quarter and slightly in the next quarter. But as I mentioned in my speech, we are expecting certain savings in terms of the capex wherein we would be spending lesser than our budgeted capex. The final details of the savings would be shared when the entire capex for the Phase 1 is completed.

Ravi Mehta: And on the Hyd-Air acquisition, the capex that you are planning to do, I think I heard you said six quarters.

Asad Daud: Six quarters. Yes.

Ravi Mehta: So, is this more of a captive fitting manufacturing? So, it will not impact your top line even if this comes up, but improvement on margins? Is that the way one has to think?

Asad Daud: So, it will have impact on both top line and margins. So, you know, at Hyd-Air when we acquired the company. So, some of the machines were about seven, eight years old, but the rest of the machines were extremely old, more than 15 years old. So, hence we have discarded some of the extremely old machines and we have placed orders for the new machines. So, most of the capex that we'll be doing in this financial year in Hyd-Air would be towards the improvement in the existing machines, also for purchasing of new machines, and also a bit of repair and maintenance work in the building of Hyd-Air.

And so, the reason for the new machines and the upgradation of the old machines will help us to increase our capacity in Hyd-Air. Also, it will help us to increase our capabilities where some critical products that needs to be manufactured, they require some new latest machines. Hence, till the time we don't get those machines, we will not be able to cater to that particular segment of the market. So, hence this capex of Hyd-Air would help us to increase both its top line as well as its bottom line.

Ravi Mehta: So, what will be the capex?

Asad Daud: It will be approximately INR18 crores over the next six quarters, like I said.

Ravi Mehta: And how much can it add to top line and margins?

Asad Daud: So, we are expecting that by the end of the next financial year, approximately INR30 crores to INR35 crores of top line would be of Hyd-Air.

Ravi Mehta: And you will continue to source fitting from outside.

Asad Daud: So, once these new machines are installed, some of the fittings of Aeroflex would be diverted from third parties to Hyd-Air, obviously. And some of the fittings which require forging and other technology which Hyd-Air does not have; those will be continued to be procured from outside. So, Hyd-Air would provide some of the fittings.

Ravi Mehta: So, INR30 crores-INR35 crores sale is extra merchant sales apart from?

Asad Daud: Merchant sales, yes.

Ravi Mehta: You are consuming internally.

Asad Daud: Yes. Those will be like third party sales.

Ravi Mehta: Overall, what kind of margin addition can happen? If you are using captive, it may get knocked off, but you will still be saving some money on the fitting side. So, what kind of margin addition you expect?

Asad Daud: So, overall, obviously, I will not have an exact number in terms of the margin addition because once the entire capacities are streamlined because in Hyd-Air, we see there is a significant potential in terms of the fitting business both in India and also in the export market because right now Hyd-Air is not exporting its fittings.

So, once this capex is undertaken, we will also be focusing on starting our sales in the export markets for Hyd-Air. In terms of the margin benefit overall, like I said, it will be hard to give a number at this stage, but probably in the next couple of quarters, we will give you a better idea about the margins in terms of getting fittings in-house.

Ravi Mehta: And the bellows also will have a margin better than the blended company margin?

Asad Daud: Yes. The EBITDA margins in bellows ranges between 25% to 30%. So, those are high margin products.

Ravi Mehta: And similar for Hyd-Air, is that a fair assumption?

Asad Daud: So, for the fittings, it ranges anywhere between 15% to 20%. So, lower than bellows.

Ravi Mehta: Thank you.

Moderator: Thank you very much. The next question is from the line of Prem Luniya from Astute Investment Management. Please go ahead.

Prem Luniya: Hello. First of all, congratulations on a good set of numbers. I had a few questions. So, composite hose, we were supposed to add it in the second quarter of FY25. So, are we pre-poning it and how is the process? Can you throw some light on it?

Asad Daud: So, for the composite hose, the three additional lines would be commissioned in this quarter. So, we have received the machines. They are undergoing the installation work. So, in this quarter, the three additional lines of composite hose would be commissioned.

Prem Luniya: Also, on the track for Hyd-Air, can you throw some light on exactly what are the components which we are delivering and what are the potentials?

Asad Daud: So, these are the fittings that are used by the railway coach factories for using in their wagons. So, in terms of the business, on a yearly basis, railways procure hundreds of crores of tenders of fittings. Obviously, not all of the fittings can be provided by Hyd-Air. So, there is a huge potential for the business in railways. Hyd-Air was previously working in railways but not in the coach factory. This is the first order that we have received. I think once this is successfully delivered, then we'll be able to see higher quantities of business coming in from the railways.

Prem Luniya: Okay. And just a question on the guidance link. You told that INR500 crores is what we are looking at in a year or so. So, is this including the bellows and is this for the next fiscal which we are planning?

Asad Daud: So, INR500 crores, just to clarify, was at the 15.5 million meters of peak capacity production at a 50% assembly contribution. So, that was for specifically that particular capacity wise.

Prem Luniya: I see. So, right now we have the capacity utilization around 80%, right?

Asad Daud: Right.

Prem Luniya: Thank you.

Moderator: Thank you very much. Thank you. The next question is from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.

Lokesh Maru: Hi, sir. Thanks for the opportunity. A few questions from my side. So, any status of how is the Red Sea issue impact which we faced two quarters back? How is it faring now? That is one. Two, how competitive we are at this point in time given the issues with Turkey for our sales in Europe? And any update on incremental marketing and sales in the US?

Asad Daud: Okay. Thank you, Lokesh. So, in terms of the Red Sea, if you would have seen from our numbers, right, our working capital cycle has increased. This is primarily due to the issue of the Red Seas where there is a delay in the receipt of the containers. So, hence, there is slightly a pileup of inventory both at our factory and also at the port level. Plus, the containers which, say, for example, are supposed to reach in 30 days are reaching in about 45 to 50 days.

So, the additional 15 to 20 days of working capital has been impacted and that you can also see from the numbers. Unfortunately, this is something which is beyond our control. We are working with our customers on revising some payment terms to help us to overcome this.

But as of now, this is the situation and right now, yes, it is having some impact on our working capital. In terms of our competitiveness, so, if you see, just to give you a few more highlights in terms of, you have seen our business increase from the USA, from the Middle East region, also from the Africa region, there has been a slight dip in the business from the European region, obviously, because of the entire European market is going through a tough phase.

There is a slowdown in Europe, but our focus has been over the past few years of de-risking ourselves from Europe and focusing more in the Americas region, which includes the entire North, South America. And especially this year, as I mentioned in my earnings call of last year, we have a strong focus to build up the business in the Middle East and Africa.

So, we have just started working on that. We are also discussing on how to increase our business in the Far East as well, where right now we don't have any presence. We have just started working with our sales and marketing team and with the help of a few consultants, we are working on how we can penetrate the market of the Far East, especially for our hose and assembly business.

Lokesh Maru: So, I think, we are already in line, maybe with our guidance of 25% EBITDA growth. So, despite the issue of that stage and if the stainless-steel prices are down, obviously, top line growth doesn't reflect that. But if you could also share how much we grew in volume terms, maybe in first half and in Q2 per se.

Asad Daud: So, I'll just give you the numbers. So, in terms of our Q2 production as compared to the same quarter of last year, we grew on a year-on-year basis at about 19%. So, in terms of the production. So, hence, we have seen the growth in terms of the volume terms. Obviously, with a minor decrease in the price of raw materials, the top line in value terms has not grown by that percentage.

Also, the increase in the production is also that since now we are into the assembly business, hence, the time period to convert from a hose to an assembly increases. Our focus over the next few quarters and also the next few years would be to increase our assembly business. And like I said, over the next three to four years, contributes 50% to 70% of our overall business. So, that's the aim for us right now.

Lokesh Maru: So, last question from my side, the guidance for this year has been 25%. Any expectation that you have on FY26 as such, you would like to go 20%, 25%, 30% since we are in this mode. What are you expecting?

Asad Daud: Yes. So, like I said, in terms of this year, I'm confident that we'll be able to reach our EBITDA guidance for this year. For the next year, I think, our aim would be obviously to grow at a similar pace. But the exact guidance in terms of the percentage, I think I'll be able to share it in the next earnings call, which will be the Q3 earnings call, because that will also give the investors a better idea about our performance for the first nine months of the year, and then the plan going ahead.

Lokesh Maru: Sure, sir. Thanks a lot.

Moderator: Thank you very much. The next question is from the line of Mohit Madhiwalla from Envision Capital. Please go ahead.

Mohit Madhiwalla: Hello, and thank you for taking my question. Congratulations on a good set of numbers. So, I just wanted to understand that beyond FY26, even ahead to FY27, 28 and so on, any industry trends in the domestic and the export market that are giving you confidence for us to achieve such type of volume growth?

Asad Daud: So, first of all, if you know, in terms of our products, our product is basically a very critical component in any large industry or in any large setup. And our product is used basically for the flow of materials. And so far, as of today, there is no replacement for our product.

On the contrary, our product is actually replacing the other products, for example, rubber hose products, which are more detrimental to the environment. Plus, also the cost of recycling the rubber and manufacturing the rubber is actually not sustainable.

And hence, a lot of the companies, especially in the US and in the EU region, are having a strong focus on sustainability. And they want the companies, especially the large ones, to start replacing those products, which are not sustainable for the environment and convert it into those products, which are better for the environment.

And hence, for that reason, we are seeing some of the industries moving away from the rubber hoses to stainless steel hoses. Plus, also in terms of our competitive advantage, being in India, obviously have the cost advantage with us. We also have the advantage that our engineering team is actually on par, if not better than some of our competitors in the foreign countries.

In terms of the domestic market, we are seeing a very strong growth for our products in the domestic market. Especially when the Bellows project also starts, I think we'll see a good demand for Bellows from the India market, as well as obviously our major driver would be the foreign market. But we will also see a good business for that particular product for the domestic market.

And with India, being on the growing curve, and I think the next three to four years, there is an extremely strong push on manufacturing in India, whether it is electronic, whether it is semiconductor, whether it is defense equipment, whether it is aeroplanes, whether it is anything related to high-end engineering, our products are required for those particular segments.

Right now, they are being imported, especially in the extreme higher end of the spectrum. But I think slowly we'll see that there'll be a strong focus on buying these components which are made in India. So, yes, the outlook for the next three to five years is extremely promising, both from the India market and also from the export market.

Mohit Madhiwalla: Right, right. That's very helpful, sir. So, thank you for that. Just wanted to understand from an export and domestic kind of mix, it's currently at, let's say, an 80-20 kind of split, right? Around 83-17. Just wanted to understand firstly, is it possible to define the potential market size in India for all our products? And do we see this share going up?

Asad Daud: So, the overall stainless-steel hose market, if I may say, is about USD3 billion in terms of the global market. Obviously, India is a small percentage of that at this stage. But India is actually growing. And if you see from a different angle, after USA, India is actually our second biggest market in terms of a single country. So, the USA obviously is our biggest market in terms of one particular country. But actually, the second highest market is actually India, which is contributing 17%.

So, from that angle, I would say that we have a very strong presence in India. And, we are the market leader here in terms of the products that we are dealing in currently. So, I see a very strong potential for India. Obviously, since we have been predominantly an export-focused company and exports driving majority of our revenues, we definitely see that exports will be the significant contributor to our revenue. But India would be definitely, I would say that the second biggest country for us in terms of our sales.

Mohit Madhiwalla: Right. Got it. And just one last question in terms of the US market and in terms of maybe the pricing also, the price advances that we have. So, how are we meant to kind of understand the product pricing in stainless steel hoses? Does it, does a higher value product necessarily mean that this is a larger diameter product? Is it depending on the use case for the product? And just in terms of this price competitiveness and kind of product offering, how are we comparing to, let's say, the US counterparts in, of course, in the US and Europe?

Asad Daud: So, generally what happens is the pricing of the product depends on a variety of factors. Obviously, the first is the size of the hose in terms of the diameter. So, by some rule, a smaller diameter hose of one meter will cost less than a larger diameter hose of one meter because of the higher quantity of the material which is used for a larger diameter hose.

Plus, the pricing also depends on what kind of stainless steel are you using, are you using 304L, are you using the 316L, which is at the premium end? Are you using 321 or are you using a higher value of metal like Monel and Inconel, which prices go up to INR1000 a kilo?

So, the raw material used also has a factor. And the last, obviously, in terms of what is the ultimate end use of the product also determines the technical aspect of the product. And hence, that will determine the pricing of the product. So, if it is, say, for example, a product which is used, say, for the flow of, for example, water, for example, hot water, that will have a lesser specification requirement as compared to a product which is required for the flow of hazardous chemicals. So, the pricing obviously, would vary depending on that.

Mohit Madhiwalla: Right. Okay. Understood. Okay. This was very helpful. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Pranjal from Niveza. Please go ahead.

Pranjal: So, the main question was, is the metal bellows part of the business into the assembly business or the steel hose manufacturing business?

Asad Daud: So, metal bellows is actually a completely different product. Well, on the face of it, it looks like a hose, but it is actually made from a different technology. So, it actually doesn't form part of the hose or the assembly. Bellows is a very different product. The bellows also has two kinds of offerings. One is called the element where we just manufacture the bellows and sell it. The other is called the expansion joints where we add other cuttings onto the bellows and then we supply it. So, bellows are very different from the hose.

Pranjal: Sir, what is the expected revenue for FY25?

Asad Daud: In terms of bellows?

Pranjal: No, overall.

Asad Daud: Overall. So, I think we generally give in terms of the guidance, in terms of the EBITDA numbers. So, in terms of the growth in EBITDA, we expect about 25% growth in the EBITDA numbers in this financial year.

Pranjal: And what about revenue?

Asad Daud: So, revenue per se, we don't generally give the guidance, but you can extrapolate it and you can find out a ballpark figure, do some calculation

Pranjal: And so, out of the whole setup that we are trying to figure out in the flexible hose department, so the Phase 2 is supposed to be completed by December 24, right?

Asad Daud: For the hose business, right?

Pranjal: Yes

Asad Daud: Yes. So, from 15 million meters to 16.5 million meters. So, obviously, we are planning to expand that line further and the details of the next expansion would be shared in the next earnings call, which will be of the Q3 earnings call. So, we are in the stage of finalizing the plan for the next financial year in terms of the capex specifically for the hose business. So, by next quarter, you'll have the data.

Pranjal: Got it. And out of all the products, which two or three products are the most valued products, like high value products, wherein your margins are better than most of the other products that you manufacture?

Asad Daud: So, in terms of the assembly business, the assembly products are definitely higher value both in terms of value in terms of the top line and also better margins in terms of the bottom line. Specifically, they go to the industries such as the oil and gas industries and also to the firefighting industry. So, those particular assembly products are the highest in terms of the margins.

Pranjal: Got it. And so, what are we expecting from Hyd-Air in terms of revenue? How much revenue will it add in FY '25 and in the next year?

Asad Daud: So, in terms of FY '25, I think, Hyd-Air will not contribute much towards the top line because most of our expansion in terms of capex, in Hyd-Air, in terms of the machines, would happen in this quarter and the next quarter. So, the real impact of them, of those expansion would be seen in the next financial year. So, like I said, we are expecting about in the next financial year, INR30 crores to IN35 crores of business in Hyd-Air.

Pranjal: And through that business, you will be catering to railway, right?

Asad Daud: Yes. So, the railway business happens through Hyd-Air.

Pranjal: Has Hyd-Air previously been catering to railways?

Asad Daud: Long back. So, not at the time we took over, but previously, before the pandemic, they were catering to the railways. They also had some very small orders from one of the railway divisions, but it was not significant. Right now, we have just taken a trial order from the railway coach factory. And also, we are also applying for some other tenders for some divisions of the railway. So, once this first order is materialized and is dispatched, I think we will be able to see a lot more orders from railways in the next quarter and also in the next financial year.

Pranjal: Got it. And so, who would be your peers in India for Bellows or any kind of products that you manufacture?

Asad Daud: So, in terms of hose , we have companies like Parker and Senior, which are multinationals, which are based in India. They also have Bellows as a division. Parker also has the fittings as their division. Then we also have some other players, especially in the fittings business, who are supplying to railways. But in terms of the hose business, in the organized sector, I think we are competing directly with the multinationals who have their presence in India.

Pranjal: Got it. So, how are you maintaining your edge in America as such?

Asad Daud: Sorry? Maintaining the?

Pranjal: Maintaining your edge over these people in America?

Asad Daud: So, in the U.S., first of all, our products are on par, if not better than some of our competitors, especially in the U.S. market. And obviously, the cost arbitrage that India gives you in terms of the higher quality product at a cheaper cost. Hence, the advantage of Aeroflex is apparent plus, also what we do is not only in terms of the cost advantage, we also work with our customers in terms of re-engineering their products.

So, sometimes what happens is if a customer is using a certain kind of a product, it might be a case where there is some re-engineering required on that product. And with that, the re-engineering, they are able to save on the cost of the product. So, sometimes it's not only just the cost of labor, but the cost of re-engineering which we provide, which actually helps them to give a better product in the market at a much better price.

Also, in terms of our quality, we have one of the extreme lowest rejection rates for any company in our sector in the world. So, that also gives an advantage to the customers wherein they are extremely confident that if they are using a product made by Aeroflex, it is sure to match the quality. So, these are all the aspects that work at Aeroflex with us.

Pranjal: Got it. And so, my last question would be, what is the capacity utilization of the facility, like the optimal capacity utilization?

Asad Daud: So, right now, we are working at almost at 85% capacity level utilization. And with the additional capacities that are coming up, we aim that we would be able to sustain this capacity utilization level. Our aim would be, obviously, in our industry, sometimes we would be also running at 95% capacity utilization because we have a huge range of machines, right, from a quarter inch to 14 inches, right? So, the capacities are averaged out. And hence, sometimes you will also see our capacities at 90%, 92%, 95% also.

Pranjal: Thank you, sir.

Asad Daud: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.

Lokesh Maru: Thank you. Just one question on capex guidance for FY '25 and FY '26? What would be the overall capex?

Asad Daud: So, capex for FY '25 would be, one is obviously the bellows one -- the bellows Phase one, and the completion of the capacity increase from 15 million meters to 16.5 million meters, which is pending right now. In terms of the guidance for FY '26, I think, I said previously that in the next quarter earnings call, we will be sharing the definitive capex plan for the next financial year, which is FY '25-, '26.

Lokesh Maru: So, excluding the capex, which is yet to be announced, if you could just share the number for the amount you will be spending in FY '25 overall and FY '26?

Asad Daud: Yes, that's just one second. So, in terms of the overall capex plan, our aim is that we will be having a total capex plan of about INR82 crores for FY '25 that we already announced. And out of that, INR51.5 crores has already been spent, and the remaining would be spent in this quarter and some part of it in the next quarter. And then the plan for the next financial year, like I said, will be announced in the Q3 Earnings Call or the Earnings Presentation.

Lokesh Maru: Okay. Thank you.

Moderator: Thank you very much. The next question is from the line of Mohit Madhiwalla from Envision Capital. Please go ahead.

Mohit Madhiwalla: Hi. Thanks for taking my follow-up question. So, just one bookkeeping question. The revenues that we book in Hyd-Air will come under assemblies, and will metal bellows be a separate kind of reported segment altogether? Just wanted to understand that.

Asad Daud: Yes. So, the revenues of Hyd-Air, they are part of the fitting business. And, once the revenue from the bellows materializes, it will be a separate section in terms of our product offering.

Mohit Madhiwalla: Okay. Great. And the 50% kind of revenue that should come from assemblies at peak utilization, this will include from Hyd-Air?

Asad Daud: Yes, it will also include from Hyd-Air, but the portion of Hyd-Air revenue right now is absolutely minuscule to consider. Obviously, once the business becomes bigger, we might show it as a -- as a separate business in a particular sense.

Mohit Madhiwalla: Okay, sir. Fair enough. Thank you for that clarification.

Asad Daud: Thank you.

Moderator: Thank you very much. Due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Asad Daud: Thank you so much, everyone, for joining today. In case I have not been able to address any of the questions or if you have any other questions, you can get in touch with us or with SGA, who is our Investor Relation Advisor. So, thank you so much again for joining today. Hope you all have a great week ahead.

Moderator: Thank you so much, sir. On behalf of Aeroflex Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.