August 07, 2024

To,	To,
The General Manager, Department of Corporate Services, BSE Limited, P.J. Towers, Dalal Street, Mumbai – 400001 Company Code No.: 543972	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 August 05, 2024 for Q1 FY25 Results

In continuation to our earlier intimation dated August 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 Monday, August 05, 2024 at 11:00 a.m. (IST) for Q1 FY25 Results.

The transcript is also available on Company's website at

https://www.aeroflexindia.com/wp-content/uploads/Transcript-of-Q1-FY25-Earnings-conference-call-held-on-August-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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Encl: As above

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Govt. of India Recognised Export House

"Aeroflex Industries Limited

Q1 FY'25 Earnings Conference Call"

August 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 August 2024 will prevail."

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

Moderator: Ladies and gentlemen, good day, and welcome to the Aeroflex Industries Limited Q1 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, the 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 of Aeroflex Industries Limited. 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 our Q1 FY'25 Earnings Call. Joining me are the members of our management team and SGA, our Investor Relations Advisors. I trust that you have had a chance to review our financial results and investor presentation available on both the Stock Exchange platform and our company website.

At Aeroflex, dedication to sustainability and responsible practices drives our innovation.

We are focused on transforming traditional flow solutions with products that not only enhance the performance but also deliver sustainable environmental benefits. With a portfolio of now more than 2,300 SKUs and more than 70 products in various stages of development, we continue to advance engineering flexibility and provide innovative solutions to our customers. This quarter, we began the commercialization of some of the products, which includes copper tube assemblies, brass tube assemblies, heat pump hoses, and high-pressure DN100 solutions for some of our most prominent clients.

And we have also initiated R&D on fire sprinkler assemblies. At Aeroflex, we serve a diverse array of industries. Our products are engineered to excel under the most challenging conditions, guaranteeing unmatched reliability and efficiency across a wide range of applications.

This quarter, we have experienced strong traction from our end-user industry. While we encountered minor supply chain disruptions, these generally have not affected our demand significantly. We are also actively looking at our footprint in the emerging sectors such as electric mobility, aerospace, firefighting, and semiconductors.

By harnessing our cutting-edge engineering capabilities and innovative products, we are well-positioned to seize substantial opportunities in these fast-evolving markets.

Now, talking about our performance for Q1, we had a record-breaking quarter for our company. We achieved our highest quarterly revenue, which stood at 90 crores, which marked an 8% increase on a Y-on-Y basis and a 15% increase on a quarter-on-quarter basis.

A record-breaking quarter would have been even better if it wasn't for the delays in the container availability due to the ongoing crisis in the Middle East, and also due to some constraints that we have faced in the capacity of our assembly department. These two factors have impacted our revenue by 9%, which amounts to an approximate value of INR8.2 crores for the quarter. Despite a higher volume of orders for our assembly division, the ramp-up of our assembly section could not keep up with the demand that we are getting for the assembly business.

I guess this is a good problem to have. We are working on adding more assembly stations to increase our assembly capacity. We have also placed orders for an automatic welding machine, which will help us to reduce the manual intervention and to also reduce the lead time.

We achieved our highest-ever EBITDA, which stood at INR19.13 crores, reflecting a 13% increase on a Y-on-Y basis and a 21% increase on a quarter-on-quarter basis. It is important to note that despite our record margins, our EBITDA would have been even higher if it wasn't for the sharp rise in the shipping cost, which amounts to approximately INR81 lakhs, as well as other non-capitalizable expenses related to our ongoing projects, which amounts to approximately INR1.13 crores.

If we consider both these factors, then the total amount would be INR1.92 crores and our EBITDA margins would have been higher by more than 200 basis points. Our profit after tax for the quarter stood at a record INR12.41 crores, with a growth of 12% on a Y-on-Y basis and a growth of 24% on a quarter-on-quarter basis. For Q1 FY'25, our production volume reached 3.09 million metres. Our production volume would also have been higher if we had not faced the constraints that we have faced in the assembly section.

We are confident that with the new assembly stations that we have planned and the new automatic welding machine, which is scheduled to be received in the second half of this financial year, I'm sure we'll be able to increase our production significantly.

Now, talking about the segment highlight,

the flexible hose segment, this segment remains to be our major contributor towards our revenue, and it contributes about 55% to our Q1 revenue. This shows that there is a rising demand for metallic flexible flow solutions in the world.

The assembly and fitting business contributed about 36% of our revenue for this quarter. And like I said, if it wasn't for the assembly section constraints of capacity, I think this percentage would have been even higher.

And the other segments, like breading, interlock hose, and composite hose, it accounts for approximately 9% of our overall revenue.

Now, talking about our acquisition,

we completed the acquisition of Hyd-Air Engineering Private Limited in April 2024. We acquired the company for INR17.21 crores, which was financed through a mix of internal accruals and IPO proceeds. This marks a significant milestone in our expansion journey, allowing us to offer a comprehensive range of solutions from hoses and fittings to complete assemblies.

Additionally, we are planning to invest approximately INR18 crores for updating the facilities and the machines at Hyd-Air, which includes also the installation of a brand-new high-tech quality lab and also the procurement of new machineries, which have the latest technologies.

We are on track to be fully market ready in Hyd-Air by March of 2025, with the full impact of these investments expected to be reflected in the next financial year.

We are also pleased to announce the successful expansion of our host capacity by 1.5 million meters, which leads to an increase of our total capacity to 15 million meters per annum as of August 2024. The remaining 1.5 million meters per annum of capacity is scheduled to be completed by the end of the third quarter.

Now talking about our assemblies and fittings. So we have introduced five new stations in the assemblies and fittings, which leads to our total assembly stations of 34. And like I said that we are in the process of adding more assembly stations and automated welding machines to enhance our efficiency and also to reduce our dependency on manual labour.

Talking about our metal bellows and expansion project, the project is progressing as planned and the first phase of our capacity should be completed by December of this year. We have already received some of the machinery and the additional equipment and we expect that the remaining machines and the equipment would be received by September or October. And we expect the production to commence from December, the commercial production to commence from December.

Our strategic vision is to expand our portfolio and capitalize on opportunities across the diverse industrial segments. In the future, we are committed to innovation and product development, enhancing our capabilities to serve a wide range of industries and reinforce our position in the flexible flow solutions. We are also focused on expanding our presence across the globe by establishing strategic delivery locations and broadening our product range.

We aim to provide efficient and integrated solutions to our customers. In addition, we also plan to explore to enter into manufacturing of flexible flow solutions using high-end materials such as Bronze, PTFE, and Inconel, while we also plan to enhance our design and R&D team. With our full capacities set to come into production by the year-end and our recent inorganic acquisition, we remain confident in achieving our targets for this financial year.

Our confidence is also bolstered by the impressive growth rate of some of our competitors in the US, especially Parker and Eton, which shows the robust potential of our industry. We are highly optimistic about the next few decades, given the strong growth trajectory and the emerging opportunities that are present in our industry. With our extensive experience and strategic vision, we are well positioned to capitalize on these trends and drive significant progress.

This long-term perspective reaffirms our belief in the vast opportunities ahead and our commitment to leading the way in this high-growth sector. With this, I would like to conclude my presentation 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. The first question is from the line of Manan Vandur from Wallfort PMS. Please go ahead.

Manan Vandur: Thank you so much for the opportunity and congratulations on the numbers. I just had a few questions. So, I just wanted to understand what our EBITDA margins for the metal bellows segment will be once it is like fully ramped up and all, like the whole 300,000 capacity thing.

Asad Daud: Okay. So, the EBITDA margins, I will tell you about the Phase 1, which is already under commissioning. So, once the Phase 1 is fully completed and the production is up and running at an optimum capacity level, the EBITDA margin for metal bellows should range anywhere in the region of 26% to 30% on an average. And after Phase 2, depending on the size of the bellows that we make, it could be even higher.

Manan Vandur: Okay. Understood. Thank you. And I also wanted to understand that, see, even as we are going to do our metal bellows, do we already have inroads with some of our clients? Like, are we in talks or like we already, you know, have secured some of them? Like, can you name some of them?

Asad Daud: So, unfortunately, I will not want to name any of our clients on, on such a call. So, but I will say that we have already started. So, we have already started working with our, customers since the past two months. We have started to work on the designs of the bellows that they require because these bellows are not like, they're not like a commodity product where, you can just start manufacturing and selling. So, it requires a lot of working with the customer. So, we have already started work on that.

We have already in talks with, two, three of our major customers to develop bellows for them, you know, as soon as we are, capable to start manufacturing them. So, all the background, work or I would say the backend work with regards to the bellows, marketing has already started.

Manan Vandur: Okay, That's really helpful. I have, yes, one more question. Even as we have, done our acquisition on the Hyd-Air side, do you think like our revenue share will be more on the domestic because we are, now focusing on defence clients and everything. And have you secured like some clients in this also because you have named some in the PPT. So, wanted to understand on that part as well?

Asad Daud: Yes. So, in terms of the defence sector, we are, you know, right now not supplying directly to the defence sector, but we are supplying to the Tier 1 suppliers who are then ultimately using our products, in their machinery and then supplying it to the defence sector. So, and with regards to our domestic business, so domestic business right now contributes about, you know, approximately 18% to our overall business.

And we expect that the domestic business will continue to grow, at a very rapid pace, maybe even at a faster pace as compared to the export market because we have a, so we are investing significantly in ramping up our domestic sales team as well. And we can expect the food for the domestic, business to be seen in the next few quarters. So, the work has already begun on that.

Manan Vandur: Okay. And are we in talks with some of the clients that you have named?

Asad Daud: Yes. So, we are already in talks with some of them. And I think we have received, some trial fevers also from some of them, you know, to develop certain products for them.

Manan Vandur: Okay. And a very last question, if I can squeeze in. I just wanted to understand that even as we have these three different assembly things now, like, for example, we have hose, assembly and then we also have metal bellows. So, let's say, you know, like three years from now and we run at our optimum capacity for all three of them. What can be our optimum revenue potential, you know, at peak revenues we can generate from the three of these?

Asad Daud: So our ultimate aim like I have been telling in my previous calls also that over the next 4 years to 5 years our aim is to have a total sales of about INR1000 crores over the next 4 years to 5 years. So, that would rise up bellows, hoses, composite hoses, fittings, assemblies and a whole set of new products as well. So that's our aim over the next 4 years to 5 years.

Manan Vandur: Okay. Would that consider even the Hyd Air acquisition?

Asad Daud: Yes. That's a part of the - because that's right now part of the company.

Manan Vandur: Thank you. That’s it from my side. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Varun Mohanraj from Skaniva Capital. Please go ahead.

Varun Mohanraj: Good morning and thank you for the opportunity. So, in the previous call, we have spoken about increasing our fittings revenues from the current mix of around 33% to 60% to 70% in the next 3 years to 4 years. So, this would be fuelled by the metal bellows capex which we're doing I mean the phase one plus phase two together can give us 60% overall revenue from the fittings business or should we also do further capex on the fittings business -- fittings and assembly business?

Asad Daud: Yes. Thank you so much for the question. So metal bellows as a product is the difference from the assembly product. So when we talk about the assembly product we're talking about converting the hose into the assembly. So it's not -- so bellows the revenue of bellows would be different and the revenue of assembly is different. So when we talk about we expect to have about 60% of our sales over the next 3 years to 4 years from assembly. So that does not include the bellows part because the bellows is a completely different product.

Varun Mohanraj: Okay. So like when you said in 3 years, 4 years you'll have this revenue mix. So what would be the rough revenue mix like if you can help us understand?

Asad Daud: So, just to explain that. So when we talk about like 60% of the business would come from the assembly. So what we mean is that say for example, if the entire the metal hose division, if it contributes INR100 of revenue. So out of that 60 would come from the assembly and then 40 would come from selling just the hose and the bellows is the difference. So we have not counted that as part of that.

Varun Mohanraj: Okay. Thanks for that. It's clear now. And a slightly longer-term question like we currently have around 2,300 SKUs. So we've talked about one of our large competitor probably in the West who has like 50,000 to 60,000 SKUs. So since we are in the growth phase probably for this whole decade. So like maybe in 5 years or 5 years to 10 years down the line, how many SKUs can we be get to from here?

Asad Daud: So ultimately our aim would be to cross in the long run to 50,000, but obviously that's a long way. It's part of an extremely long-term plan, but at 50,000 to 60,000 SKUs one of the competitors of UK they're doing $20 billion in annual sales. So you can just imagine the scope or the potential for our business in the next few decades where if we can reach to that scale we would probably be one of the top companies in the world in a particular industry like a wider range of industry.

So the potential is enormous because we have there are two, three large companies in the world who are in our business and who obviously have a huge range of products, and we can see that with that range there is a huge potential for the market in the market.

Varun Mohanraj: Okay. So can we assume that the number of SKU growth would be similar to a company growth rate like 25% growth in SKUs also or SKUs can grow faster than the revenues growth?

Asad Daud: In a sense per se honestly we don't have any specific targets to grow our SKU like, for example, that we want to grow our SKU by 20% or 50% or something like that. It's just that as our business grows by default, the SKUs would grow. Now it may grow at 20%, it may grow at 10% or it may grow at 50%. It will be hard to give you a number in terms of the SKU growth because a lot can happen when we develop a new product.

And it could be used in a wide variety of industries so the sales of that particular product could be extremely high, but obviously as our company grows, as we move up into the ladder chain, I'm sure the number of SKUs is going to grow.

Varun Mohanraj: Okay thank you. And my last question so we've spoken about INR1000 crores revenue aspirational target to the previous participant. So when we achieve INR1000 crores what would be the revenue contribution from the new age sectors like solar, EV and robotics which we talked about and does this new age sector have a higher margin potential compared to our other conventional sectors? So this would be my last question?

Asad Daud: So in terms of margins, obviously, as we move into the new industrial sectors they obviously have better margins as compared to the traditional sectors, but what we are also doing is through our design and engineering team that we are also working on certain new products for our traditional sectors also which can help us to increase our margins even in our traditional sector.

So, obviously, the new sectors have better margins, but we are also working on some design changes for the product which will help us on margins in these traditional business. Now in terms of the split we expect that over the next 4 years to 5 years I think the new sector would contribute more than 50% to our overall business.

Varun Mohanraj: Okay. That was great. Thank you for answering my questions.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Good morning, sir. Thank you so much for the opportunity. Sir I joined a bit late, but what was the volume growth reported during this quarter?

Asad Daud: Thank you Mahesh. So our production volume in this quarter was approximately 3.09 million meters for this quarter. If you talk about on a quarter-on-quarter it's more or less the same. As I mentioned in my call that our production in this quarter would have been higher if not for the constraint that we face in our assembly sections.

So because of we received a lot of orders for our assembly, but we were not able to ramp up the capacity in the assembly stations at the same pace at which we receive the demand. Now the thing is that the assembly business is a very critical aspect where it requires welding manpower, and the welding skills required are different from your traditional welders.

And for any new welders who are onboarded, they undergo one to one and a half month of training to increase our -- for them to be capable to weld our products. And hence, we already increased approximately five stations in the last quarter, and we are planning to expand more in this quarter and the upcoming quarter.

We had also placed order for an automatic welding machine, which will be the first in India for our industry, wherein the manual intervention required by a manual vendor would significantly be reduced, which would also help us to enhance our efficiency and to also enhance our production. And I think once that is operationalized, I think we'll be able to see much, much higher production in our assembly division.

And if you see our in terms of the capacity utilization, it remains at around 88% to 90% for the last quarter. And the increase in capacity of 1.5 million meters was completed in the first week of August. So the impact of that would be seen in this quarter result.

Mahesh Bendre: So, sir, coming quarter should be good, I mean, in terms of capacity expanding and the bottlenecks that we have faced the last quarter won't be there.

Asad Daud: So, yes. If you had to talk about the last quarter, our last quarter was a record quarter. Like we had record sales, record profits for the company ever. And despite these challenges, we had a record quarter. So, for this current quarter, we expect it to be better than the last quarter. Obviously, the welding issues will not be solved like immediately. It will be only solved over a period of the next few quarters, wherein once we get the automated welding machines, I think those will be able to help us to ramp our production significantly.

Because we, as a company, also want to reduce our dependency on manual welders, because the plan we have to scale up the production of assembly business, I think we are committed to going into optimization for those particular sections. Because the scale that we aim to go at, I think without automation, it will be difficult to reach that scale.

So we have already placed those machines. So once the first machine is operationalized and fully into production, I think we will be placing orders for much more of those machines. So those machines are imported from Europe, just to let everyone know.

Mahesh Bendre: Sure. And sir, in terms of, if I have to look for the next two, three years, is it fair to assume we will be able to grow 15%-20% in terms of volume on a like-to-like basis?

Asad Daud: Yes, I think that's most definitely. I think our aim is to grow, you know, higher than that, but that is definitely achievable.

Mahesh Bendre: Okay. Sure. Thank you so much, sir.

Asad Daud: Thank you.

Moderator: Thank you very much. The next question is from the line of Ravi Shah from Opal Securities. Please go ahead.

Ravi Shah: Yes. Hi, sir. Sir, I had two questions. First would be on the raw materials side. Sir, my question would be, despite the higher freight charges and we being a raw material importer, how are we managing our costs? So, it has come down significantly on a Y-o-Y basis. So, could you explain that inconsistency?

Asad Daud: So, like I said, so our raw material costs, so we do both imported raw material. So, we buy both imported raw material and raw material from the domestic market. So our dependency on import has reduced slightly, which also has led us to better margins in terms of our material consumed.

Plus, also what is happening is our design team is constantly working on reengineering the product. So that helps us to give the same product to the customer at the same price that we want, but at better margins for us. So that has also helped us to reduce our cost of material consumed.

Plus, also, we have done certain improvements in our production systems, also in our procurement systems, which has helped us to reduce our raw material, both cost and also our raw material inventory. On the other side, our inventory of the finished goods has slightly increased on account of these issues being faced because of these containers not being available in the market and due to the increased shipping time from India to Europe and to the USA.

Ravi Shah: Understood, sir. Thank you for such a detailed answer. Sir, my second question would be, as majority of our revenue is right now coming from U.S. and European markets, so what kind of growth are we expecting over the, let's say, two to three-year period going forward? And given this backdrop of our recent acquisition as well, so given this acquisition, what kind of volume numbers or growth are we expecting from this region coming forward?

Asad Daud: So, USA and Europe will continue to be our biggest markets, because of the demand in those countries and because of the potential also of those countries, they will remain to be our biggest market. I would say that even though our industry overall on an annual basis might be growing at about 5% to 6%, but if you see our growth over the last four to five years, we have been growing at about 25% to 30% and we would want to continue that momentum over the next two to three years despite the entire market only growing at 6% because we feel that with the advantages that we have in terms of our quality, in terms of our delivery times, in terms of our product pricing also, the cost benefit that we give to our customers I think we'll be able to grow at the same rate over the next two to three years.

In terms of the acquisition, so Hyd-Air was predominantly selling only in India. So, once our capex for Hyd-Air, so in terms of the machines required to export the fittings to the foreign countries, so we have already placed the orders for those machines. So once they are operationalized and they are into production, I think we'll be able to export a lot of the fittings even to our existing customers in USA and Europe, but that would only happen probably in the next financial year.

Ravi Shah: Understood, sir. Thank you for this detailed answer, sir, and all the best for the future.

Asad Daud: Thank you so much.

Moderator: Thank you very much. The next question will be from the line of Depesh Kashyap from Invesco Mutual Fund. Please go ahead.

Depesh Kashyap: Hi, sir. Thanks for taking my questions. Sir, the number that you gave, right, 3.09 million meters, that is a production number or a sales number for the quarter?

Asad Daud: Production number for the quarter.

Depesh Kashyap: So sales will be similar or what will be that number?

Asad Daud: So we actually don't, you know, so we don't focus on the -- so these production numbers were, we started to give since the last few quarters because a lot of the investors had demanded. So we, like I said, because of the sales, our business is like, we actually don't sell in meters, like 54% of our sales is in meters, but if you see 46% of our sales are not in meters. And hence we don't actively track the number of meters sold. We rather work on the total value of sales and obviously the value of the margins in terms of the EBITDA on the profit that we have received. Just to update to the investors in terms of our capacity utilization, what has been happening. So that was on investors' request.

Depesh Kashyap: I got it. So understood. So basically if you say, if you produce 1 million meters of hose and if you sell it directly as a hose or you basically add an assembly or a fitting to it and you sell it as a product, so that will add to your realization, right? But the underlying volume will be the similar volume, right, because that is dependent on your capacity. So if you can give that number, then we can understand how much assembly you sold? So that will reflect in your realization, right, or not?

Asad Daud: So the assembly production is actually calculated on the basis of the linear inch and not on meters. So if I add linear inch to meter, it would give a distorted figure. And hence, that is the reason why we don't give the sales numbers in terms of meter, and we give the production number just for everybody to understand at what capacity utilization that we are working on right now. So that is the reason why. Because the welding is, is done on the ends of the hose, which are measured in inch and not in meters. So that gives a distorted number.

Depesh Kashyap: Got it. So your production number this quarter was 3.09. You said last quarter also it was similar, right, 3.09?

Asad Daud: Yes. So what happened in the last quarter, we, we got more inquiries for lower diameter of hose. In this quarter, we have got inquiries for a larger diameter of hose. So even though production might be same but the in terms of the largest sizes were sold in the last quarter much more than the previous quarter of the same financial, sorry, the same quarter of the previous financial year.

That's also like I said that we actually could have produced more but we slightly lowered our production. The reason being is that we don't want to have excess inventory in WIP. Like I said that we received a very good demand for the assembly but unfortunately, we were not able to ramp up our assembly section at the same pace at which we have received the orders. So hence, we didn't want to increase our WIP level to a very significant level. Hence, we lowered the production to ensure that we have a seamless line for production.

Depesh Kashyap: Got it. And since last quarter, you mentioned that you were impacted by the Red Sea issues and everything. And now this quarter, your numbers are better, and you said like INR8 crores further impact was there. So apart from that everything is on track now. The customers are giving you more orders and you're also able to deliver on time. How is it?

Asad Daud: Yes. So delivery from our factory is going on time. Unfortunately, delivery reaching the customer is not happening on time. But that is something which is actually not even in our control. So I think this Red Sea crisis I think is not going to go at least for the next few months or at least till December. I think it's now actually a part of the life only.

So like I said approximately like if both the Red Sea issue and the welding station, the welding capacity issue would not have been there, I think our revenues would have touched almost INR100 crores. So but yes, we are working on removing those issues some things which are under our control. Obviously, we are working on them some things which are beyond our control. So we are working with our customers to see if they can do a higher stock of inventory at their warehouse or houses that we can reduce the dependency on or reduce the impact of these supply chain issues. So, yes.

Depesh Kashyap: And anything on the increased freight cost like who is bearing that you or the customer?

Asad Daud: It's a mixture of both. So especially in case of FOB it is borne by obviously the customer. But in case of certain orders which we have already taken under CIF it is borne by us. So as I mentioned in my speech approximately 81 Lakhs rupees of shipping cost was in addition to the regular shipping cost that we would have paid. So that is the amount that we have actually been impacted. Obviously, the overall cost is higher because some of the additional shipping burden has been borne by the customer. So it depends a lot on customer to customer on terms to terms, on volume.

Depesh Kashyap: Any rough break up you can give about the FOB and the CIF contracts? Any rough rate of 50-50, 60-40, how is it?

Asad Daud: Very hard to give a number, but it would, so it would range 60, so 40 would be FOB, 40-45 would be FOB approximately and about 55 approximately would be CIF. But this is just a very ballpark.

Depesh Kashyap: Yes, got it. And lastly, Asad, you said like Hyd-Air also, you will be adding further coming up, you will be doing some capex, right? INR18 odd crores. So if I remember correctly, I think your previous guidance on capex was around INR60 odd crores. So is there any change in the overall year's guidance?

Asad Daud: No, 60 is over the period of next 3-5 years. So INR18 crores is over the next one year that we have planned with regards to additional machines, additional space infrastructure, additional equipment. Like I said quality labs the first thing we wanted to work on is because when we took over the company although it is a very small company, but we saw the potential there.

And the first thing we wanted to implement was a high quality and high-tech QC lab. So we have started, we have already started on the work on the same. Because in our industry, I think the QC is the first point for any potential customer to come and visit the plant. So the first thing is the QC lab. So we have already started to work on that. We have already placed orders for a few machines.

Depesh Kashyap: So the overall capex you see for this year is how much?

Asad Daud: For this, for at least for this particular financial year, it would be, I think, somewhere approximately between, I think, INR7 crores to INR8 crores approximately for this financial year. Like from now till...

Depesh Kashyap: No, for the entire company not for HYD AIR . I am saying for the...

Asad Daud: Yes, for the entire company. Okay, for Aeroflex So for Aeroflex, I think for this financial year, we expect to do a total capex of the remaining year, I would say we do expect to do a total capex of about INR35 crores to INR40 crores till March 2025. Also, just wanted to update I think I might have missed out on my speech is that we may have so our capex planned for the bellows project. So we are in a good state that it is most likely they will be spending less than what we had budgeted for in terms of capex for the bellows project. So, I think that would be a significant advantage for the company at a lower cost of capex, you will be able to achieve our desired results.

Depesh Kashyap: So, just to be clear, you said INR35 crores for the remaining of the year. So, how much you have done in first quarter?

Asad Daud: We have done about INR20.3 crores in the first quarter.

Depesh Kashyap: Okay, so around INR65 crores for the full year that is what you are...

Asad Daud: Yes, about 60 or so, yes, that's right.

Depesh Kashyap: And if any acquisition happens that will be over and above it.

Asad Daud: Yes, obviously. So, acquisition is not part of this capex. So, yes, we are in talks with some company internationally, but I will not want to comment on that at this stage.

Depesh Kashyap: Sure. Thanks, and all the best.

Asad Daud: Thank you so much.

Moderator: Thank you. The next question will be from the line of Prachi Sharma from Ace Investors. Please go ahead.

Prachi Sharma: Hi, sir. Good morning. I have a couple of questions. So, I would like to take it one by one rather than going all at once. So, sir, going forward, are you planning to expand into any new geographies? And if you can give me a highlight of those regions, if you are planning.

Asad Daud: So, thank you, Prachi. So, we are exporting to almost 90 countries now. So, our focus would be to penetrate deeper into the existing countries that we have. There are some countries say, for example in Central Asia and in the Middle East, where especially Central Asia, where we have absolutely no presence, where there is a demand for our products, which we will be looking to expand in this current financial year and also to increase our presence in the Middle East region because that is also a potential in that region that we have a very little presence right now. But we think that with the potential in the market there, I think we can see significant results there. But obviously, U.S. and Europe would remain our biggest markets. But these two are the new areas that we are looking at.

Prachi Sharma: Sir, you mentioned, I think you're seeing some potential demand. So, can you maybe put, quantify this demand in some sort like what kind of demand you expect from these regions you mentioned in the Middle East?

Asad Daud: Yes. So, I think it will be difficult for me to give a number on the exact demand that we have. But, like I said, Central Asia is for us we have no presence. So, it's like starting from zero. Middle East, we already have some presence, but it is not significant. So, that is where we feel that we want to increase our presence in the Middle East. So, difficult to give, difficult to quantify that, unfortunately.

Prachi Sharma: Sure, no issues. My next question is that in the presentation, we have mentioned that we will be adding three more manufacturing lines for our composite hoses. So, just wanted to understand how big the market is and who else is manufacturing these kind of hoses?

Asad Daud: Composite hoses is a synergy product to our metal hose business, where a lot of the customers who buy metal hose, they also buy composite hose and various other different types of hoses, like PTFE hose and Rubber hose and so on. So, it is a complementary product to our products in terms of the competition. So, there is no organized player of composite hoses in India.

There is just one or two, extremely small, players who are manufacturing at a very, very low scale and then they are supplying mostly in India. But we are the largest organized player for manufacturing of composite hoses in India and we compete with the likes of a few foreign companies called Bentex, who are one of the leaders in manufacturing of composite hose. So, they manufacture in the European region. They are one of our biggest, competitors. So, yes, this is about the composite market.

Prachi Sharma: Sure, sir. This was very, very helpful. I'll get back in the queue in case of any other questions.

Asad Daud: Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Doshi from Green Lantern. Please go ahead.

Nilesh Doshi: Yes, I have a few questions from my side. One is on the export side, the future orders, now are we trying to move to FOB?

Asad Daud: So, what we are doing is we are working with the customer saying that our rates will be FOB and at present, this is the freight rate. If there is a minor fluctuation of, say, about 2%, 3%, or 4%, then, we'll bear the same. If there is any significant jump in the freight from here, then either we'll bear it jointly or it will be borne by the customer.

So, we are working on a mixed strategy. The reason being on going completely to FOB is it actually affects our supply chain even more. I'll tell you why. Because if we move completely to FOB, right, so then what happens that we have already seen with a few customers is that then they try to get the best rate from their agents.

And we could mean that they might, get a shipment which might be 3 weeks from now or 4 weeks from now. Now, that will, lead us to a higher, much higher, inventory level at our factory. That also affects our entire, our production line, our dispatches and everything. So it's both pros and cons.

Hence, we don't want to work exclusively on FOB because that would impact our inventory and also ultimately might impact our revenues as well. Because if some shipment is ready for shipment, but it will go after 4 weeks. So then, the revenue goes, it gets carried forward.

Nilesh Doshi: So if I ask it differently, are the customers expecting or accepting the new CIF rates?

Asad Daud: So like I said, like I answered previously, right. Some customers who we have, extremely large orders and all and who we have extremely good relations. So they sometimes accept 50% of the freight additional and we bear the remaining 50%. In some cases, especially new customers, generally they don't bear the additional freight where we have to bear. And in case of obviously, if some shipments are FOB, obviously, we don't bear the additional freight. It is borne by 100% by the customer.

Nilesh Doshi: So on a ballpark basis, what would be the difference between, I mean, just any particular job that you can take?

Asad Daud: So, like earlier, just given an example, Europe's freight about say, before this issue, Europe's freight were ranging anywhere to, from EUR1,000 to EUR1,500. And now it's gone to about EUR3,500. On the U.S., obviously much more than that. And the issue, one thing is the freight. The second issue is also the container availability.

So there is one thing where you pay the freight and then, you get the container fast, right? Sometimes it is happening that even after, accepting the highest rate from the shipping lines, they're not able to give the containers only. That is something even beyond.

Nilesh Doshi: Yes. But is it easing now? I mean, as the time passes, is it easing?

Asad Daud: I think it's not easing. I think everybody is just now getting used to it. This is a new normal. So it's, the mind-set is like, now we have to plan it in such a way that we expect there will be some delay. So, it's now starting to become like a normal course of business.

Nilesh Doshi: Yes. So the second is on the metal bellows, the phase one project, when are we expect to complete and start the production?

Asad Daud: Commercial production should start by December. We have already received some of the machines, the additional machines and equipments. So some of it is going to be received in August, some in September and some in October. So we expect in the third quarter trial production to start and mostly by December, commercial production will start.

Nilesh Doshi: And what is the industry where primarily, initially we would be selling these bellows?

Asad Daud: So these industries, it includes your steel industry, the power industry, the turbine industry, ports and terminals also use bellows, construction industry, oil and gas industries that they use bellows for cryogenic applications. So almost 70% to 80% of our existing industries, use bellows in some form or the other.

Nilesh Doshi: And what metal we would be working in the initial phase? It would be stainless steel or all kinds of it?

Asad Daud: No, so all kinds of materials. So even in bellows, there are some extremely high-end materials like, Inconel, bellows, but the most primary material or the material which will give us the most business would be stainless steel.

Nilesh Doshi: So likely it will be import substitution for us in terms of sales?

Asad Daud: When we supply in India, yes, it will be import substitution. Obviously, when we export, it will be, competing with the players in Europe, the players in the USA.

Nilesh Doshi: Yes, so my question is in the initial Phase 1, we would be more focusing on the domestic market?

Asad Daud: No, so we would be actually focusing on the export market. A ratio of domestic to export would more or less be in the same line as our own business, where about, say, 80% of the business would be exports and about 20% would be domestic. As of now, what we have projected, obviously, once we start to get the orders, things may change. But as of now, what we have projected is we'll be still focusing primarily on the export market for the bellows.

Nilesh Doshi: And at the full capacity, what kind of revenue we would expect from Phase 1?

Asad Daud: At a full capacity level, once we reach that capacity, say in the next, I think, 1 years, 1.5 years, we would expect a turnover from the Phase 1. We expect the turnover of approximately INR85 crores to INR95 crores, approximately. Obviously, it depends a lot on the kind of material we use. Like if we use, for example, more of Inconel, obviously, the turnover would be higher. If we use more of stainless steel, it would be in this region of INR85 crores to INR95 crores.

Nilesh Doshi: So the question is, like we have gone ahead with this project, but have we done any kind of pilot manufacturing or R&D manufacturing in the past to handle all these metals?

Asad Daud: Stainless steel is actually our core metal, as in the sense we have been using stainless steel. And we have also produced the hoses, made from Inconel also for some of our customers. So we already have the expertise. We already have the team to manufacture them. We have also, onboarded. So this entire metal bellows project is being led by an extremely senior person who has about 25 years of experience of working for an MNC who was into this business, based out of the U.K.

So they were, I would not say the pioneers, but they were one of the first companies who thought about this kind of a product for the industry. And he was working with them for almost 20-odd years. And he's a person who has, since the beginning, he's the person who's leading this entire project for us. So that is where, the expertise comes in.

Nilesh Doshi: So basically what I'm trying to understand is that immediately after we be ready with the plant, whether a product will be acceptable, or it will call for trials and qualifications and everything.

Asad Daud: Trials and qualifications would definitely be required. I think I mentioned at the start of the Q&A, I think somebody answered. So I mentioned that bellows is not like a commodity product where you just start to manufacture and sell. So it requires a lot of work with the design aspect, a lot of work.

So, with the technical aspect in terms of, trials. So what happens in bellows, the design is extremely important because sometimes what happens is a bellows, like a single bellow could be actually, worth about INR7 lakhs to INR8 lakhs. So in terms of sampling, in those cases, that does not happen. It works mostly through the design aspect because it's not possible to give up INR7 lakhs, INR8 lakhs worth of product as a sample.

So hence, in bellows, the design aspect plays a very important role. The certifications also play a very important role. So as soon as we do the trial production, we immediately need to apply certification for our products. And then obviously, we start to get the certification, especially large customers, will be able to capture them.

But some of our existing customers who are already buying hoses from us, we have already started to discuss with them about bellows that this is the project that we are entering into. And we have already started working with them on the designs of the bellows.

Nilesh Doshi: Thanks, Asad. If I have more questions, will get back.

Asad Daud: Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Asad Daud for closing comments.

Asad Daud: Thank you so much, everyone, for the question. And if in case I was not able to answer anyone's question or if anybody of you requires anything more specific or detailed, I request you to get in touch with me or with SGA, our Investor Relations Advisor. Thank you so much, everyone, for attending the call. Hope you all have a good week ahead.

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