



Aaron Industries Limited

A stock that can lift up your portfolio

Cabin



Contents

Company Snapshot	#3
Sector Coverage	#4
Aaron Industries – An Overview	#6
Manufacturing Facilities	#8
Expansion & Backward Integration	#9
Growth Drivers	#12
Segmental Analysis	#15
Quarterly Results Update	#20
Key Management & Shareholding Pattern	#21
Risks & Concerns	#22
Q1FY22 is going to be great for this company	#23
Future Outlook	#24

Company Snapshot

- **Total Weightage % in Micro Cap Portfolio = 6% (CMP = 94-95)**
- **Two Phase Buying Strategy = Buy 3% between Rs 94-105 & average down buying 3% between Rs 80-90.**
- **Price Target = Around Rs 200+ in next 12 months, Rs 1000 in next 5-6 years. If everything goes well it can be 50-100x in next 10-12 years!!!**
- **NSE Code - NSE - BE : AARON**
- **Website - <https://aaronindustries.net/>**
- **Industry - Manufacturing**

Business- Aaron Industries Ltd was incorporated in 2013 with the purpose of providing excellent solutions for the elevator industry and other connected industries. Within a Short Span, Aaron has changed the elevator market by developing a large variety of Elevator Cabins and Auto door Systems, with designs that the industry has seldom seen.

Management- Mr. Amar Doshi is the promoter along with the Chairman and Managing Director of Aaron Industries. He has over 30 years of experience in business and industry and more than 4 years of experience in the elevator sector.

Valuation- Currently the stock is available at P/E of 42, due to increased number of outstanding shares on account of fresh issue and bonus shares the EPS is declined thus the P/E seems high. **But profit growth with P/E, PEG is 0.53, indicating the stock is available at half price of its growth.**

Market Cap: INR 94 Cr

Current Price: INR 94 (9th July 2021)

52 weeks H/L: ₹ 106 / 22.6

Book Value: ₹ 12.1

Stock P/E: 42

Dividend Yield: 0.28%

ROCE: 17.2%

Debt to Equity: 0.46

Market Cap to Sales : 3.5

Face Value: 10

Promoter Holding: 75%

Pledged Percentage: 0%

Sales Growth (5Y): 50%

Profit Growth (5Y): 117%

Cash Conversion Cycle: 144

Source: Screener.in, As on 9th July 2021

Elevator Industry in India

Today, all industries are subject to radical changes and our elevator industry is not an exception. Disruptions can come from anywhere. The product is a key factor, though it is by far not the only one to be taken into account. After all, the product is no more than a means to attain the main goal of a business: the sum of positive customer experiences, that allow to create value for the company in a sustainable way. It is this dimension to which we want to draw the attention of all actors of an industry, maybe too product-oriented.

India is the second-largest elevator market in the world after China, with more than 50,000 elevators being sold every year. The growth rate of the elevator and escalator market is expected to be about 6-8 per cent in the next five years. Rapid urbanization and vertical growth of cities are being considered major reasons for the growth of the industry.

The fastest growth is anticipated in the world's developing regions – Asia, Latin America, Eastern Europe, Africa and the Middle East. In developing countries, market expansion will reflect increased urbanization, as virtually all structures in large third-world cities require elevators. Aftermarket services are also not well established, even in more developed countries such as South Korea and hence offer a sizable potential market which major global suppliers such as OTIS are actively working to develop.

The market growth will mainly be driven by the residential segment and also the activity and initiatives in tier II and tier III cities. It is likely to get even stronger in the near future, with the focus on initiatives like Housing for All, development of smart cities and new infrastructure projects. This creates a need for taller buildings with even more efficient and innovative mobility solutions.

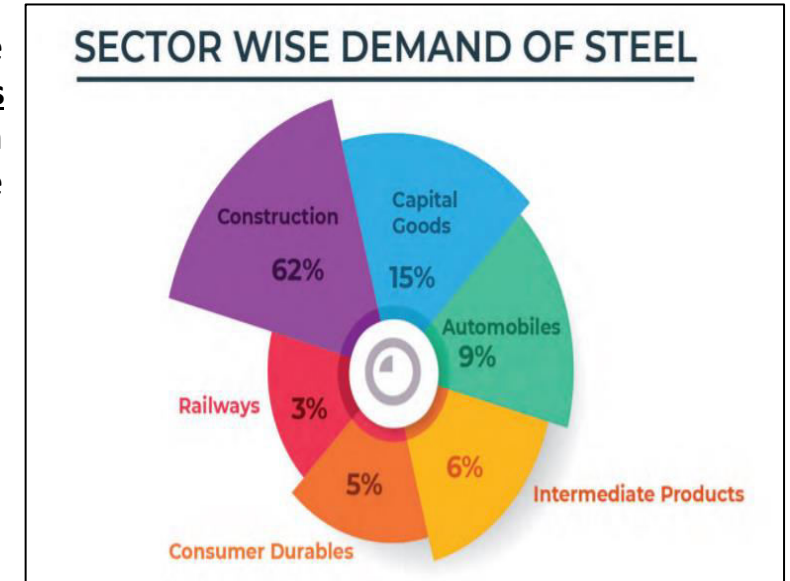
With land becoming scarce, the shift to vertical cities is the only way forward. It also means the need for better infrastructure like airports, metros etc., become important, which can help in improving connectivity. Thus the need to provide smooth, safe and convenient people flow solutions like elevators and escalators becomes mandatory. These changes definitely will support the growth of the industry and we see it growing at a CAGR rate of 7-8 per cent in the next five years.

Future cities and developing economies hold a lot of potential for infrastructure growth and therefore, urbanization is a major driver for the elevator segment in India. **As urbanization continues and the need for housing grows, India's elevator industry will continue to grow just as rapidly. Hence, it is a growing sector.**

Steel Polishing & Finishing Market

India is the world's second largest Steel producer in year 2019. India surpassed Japan to become the world's second largest Steel producer in year 2019. **As per Indian Steel Association (ISA), Steel demand is estimated to grow 7 per cent in FY20 and FY21 in India.** The growth in the Indian Steel sector has been driven by domestic availability of raw materials such as iron ore and cost-effective labor. Consequently, the Steel sector has been a major contributor to India's manufacturing output.

India's finished Steel consumption grew at a CAGR of 5.2 percent during FY16-FY20 to reach 100 MT. India's crude Steel and finished Steel production increased to 108,5 MT and 101.03 MT in FY20P, respectively. India's per capita consumption of Steel grew at a CAGR of 4.43 per cent from 46 kgs in FY08 to 74.10kgs in FY19. **The Indian government has always supported the steel industry and introduced the National Steel Policy in 2017, which envisions the growth trajectory of the Indian steel industry till 2030-31.**



The broad contours of the policy are as follows:

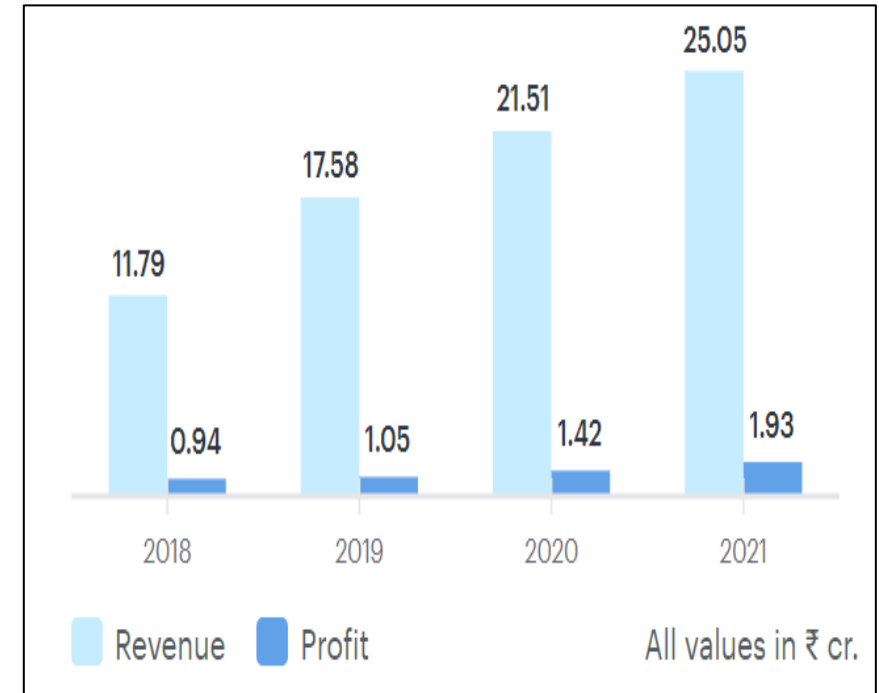
1. Steel-making capacity is expected to reach 300 million tons per annum by 2030-31.
2. Crude steel production is expected to reach 255 million tons by 2030-31, at 85% capacity utilization.
3. With 24 million tons of net exports, consumption is expected to reach 206 million tons by 2030-31.
4. Per capita steel consumption is anticipated to rise to 160 kg. An additional investment of Rs. 10 lakh crore is envisaged.
5. Allowed 100 percent Foreign Direct Investment (FDI) in the Steel sector under the automatic route. According to the data released by Department for Promotion of Industry and Internal Trade (DPIIT), Indian metallurgical industries attracted Foreign Direct Investment (FDI) to the tune of US\$ 13.40 billion between April 2000-March 2020.

Aaron Industries – An Overview

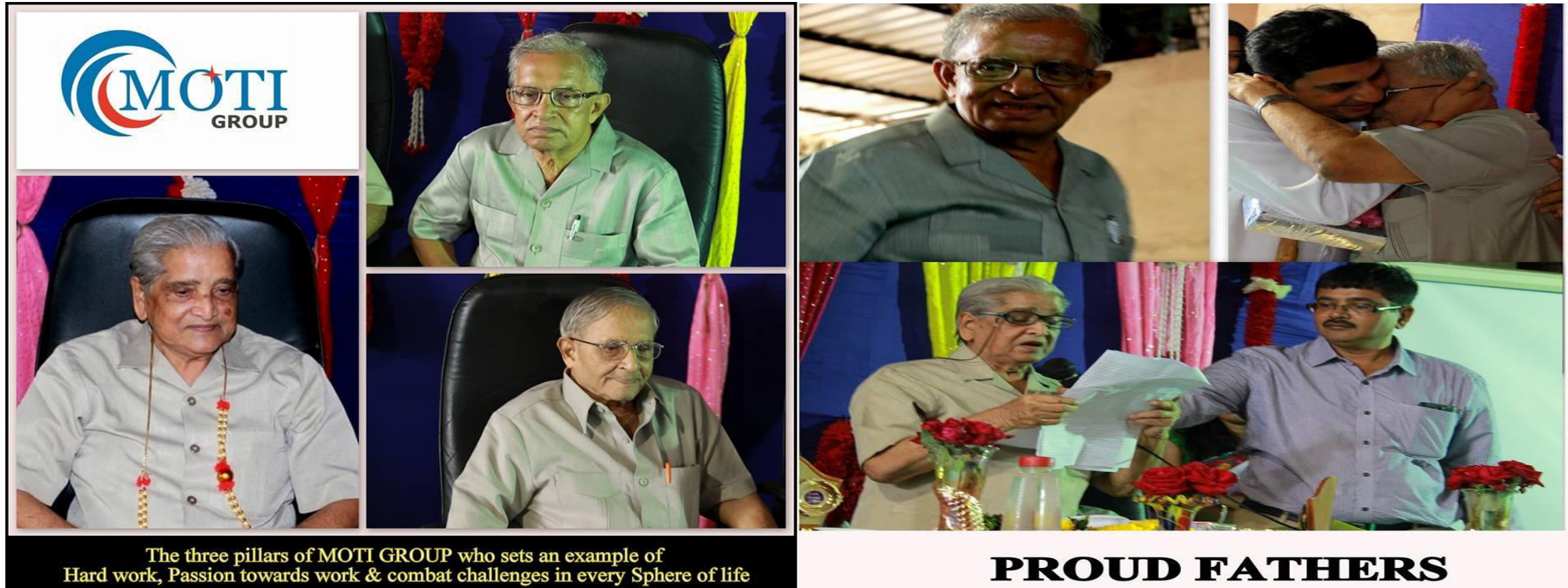
Aaron Industries Limited was incorporated as a private limited company on October 23 2013. It was converted from a private limited company to a public limited company and name of the company changed to Aaron Industries Limited on January 29 2018. **Founded by Mr. Amar Chinubhai Doshi in year 2013 as a separate entity for elevator industry to provide exceptional design in elevator cabins and started its own journey as group Company of MOTI Group.** Company believes that within short span of time it has changed the elevator industry from simple cabins to extra-ordinary designer cabins.

Currently the company is providing all Elevator product and parts under one roof. It includes Elevator cabins doors frame Header Traction Machine and etc.. From designing ultra-modern up-to-the-mark cabins for luxurious properties-residential as well as commercials the company gives its customers as artistic edge that enhances their property and provide customer satisfaction. Company is also engaged in manufacturing of various electronic equipment like Distribution boxes Busbar chambers Loom switch cable tray building hardware material such as Z perline and slotted channel.

Mr. Amar Chinubhai Doshi and his two sons Mr. Karan Amar Doshi & Mr. Monish Amarbhai Doshi looks after this business. Recently company has made more than Rs. 7 Cr. investments in new line of business (backward integration) of manufacturing, processing, polishing, coating, buffing, designing, etching, finishing of all kinds of metals, metal products and stainless steel. This unit is the backward integration of Aaron's primary product portfolio i.e. Elevator Doors and Cabins. Commissioning of this unit is a strategic decision to strengthen the supply-side of the core products i.e. elevator doors and cabins. Apart from elevators, stainless sheet is used in a variety of industries such as food storage, architectural & construction, appliances and many more.



Legacy of Moti Group



The three pillars of MOTI GROUP who sets an example of Hard work, Passion towards work & combat challenges in every Sphere of life

PROUD FATHERS

Moti Group started its journey with manufacturing of Iron Clad Switches at Surat in 1961 by **Mr. Chinubhai Doshi** father of Promoter **Mr. Amar Chinubhai Doshi**. Moti Group believed in Growing through Quality from day one. **MOTI started its operations more than five decades ago**. As years passed MOTI gained popularity and experience in Manufacturing Switchgear Products. This leads to addition of Distribution boxes Busbar chambers and Loom switch. It has also introduced Cable Tray & Building Hardware material such as Z perline slotted channel and etc. to the range.

Manufacturing Facilities

Unit 1 – Udhana (Surat)



- This manufacturing unit manufactures the entire elevators, electrical and ancillary product portfolio.
- The company manufactures the complete range of products for elevator industry along with in-house production of major parts.
- The major parts consists of Elevator Cabinets, All types of doors with Automatic door operators.
- These products are sold individually or even with complete kit of elevator as they need.

- Commissioned in February 2019, Moti Pardi unit is the back integration of Aaron's primary product portfolio i.e. elevator doors and cabins.
- This unit is engaged in the fabrication, polishing, and processing of stainless sheets, which is the primary input for elevator doors and cabins.
- Polishing products consist of different finishes in stainless steels, PVD coated colored sheets and designer sheets
- Apart from elevators, stainless sheet is used in a variety of industries such as food storage, architectural & construction, appliances and many wore.

Unit 2 - Moti Pardi, Tal. Mangrol



Expansion & Backward Integration

Aaron Industries is primarily engaged in the manufacturing activities of Elevator parts and Electrical products. The Company has also started new business line of polishing, processing, designing and finishing of Stainless Steel Sheets. They are having good channel for distribution to the elevator retailers, elevator installers as well as end use customers. They have excellent domestic market within the Gujarat and India. Further the Company is looking forward for expansion of its geographical market as there is lots of opportunities in International region.

Company is doing expansion in new line of business from their existing business by setting up new unit at Surat. The unit will comprise of manufacturing, processing, polishing, coating, buffing, designing, etching, finishing of all kinds of metals, metal products and stainless steel. They have also placed an order to import machines from Foshan Ji Li Jia Machinery Co. Ltd., China.

Company come up with the IPO to meet the demand of expansion in the financial year 2017 and the main reason for the IPO was:

- To set up a new line of business in Expansion plan.
- To meet working capital requirement.
- To meet the Public Issue Expenses

From the money received against ownership the company has meet the requirement of the expansion and they are well in time with it:

- Phase-1 which was commence from December 2018 has now been completed and they are in the process of starting with the phase II in near times.
- It will provide a massive output of more than 100 ton per month.
- Company is also looking to grab opportunities in business of trading and services of Hydraulic Lift and accessories along with Automobile parking solutions and Gate mechanism services.

This unit is the backward integration of Aaron's primary product portfolio i.e. Elevator Doors and Cabins. Commissioning of this unit is a strategic decision to strengthen the supply-side of the core products i.e. elevator doors and cabins.

The Company has already made more than Rs. 7.00 Cr. investments in the land, building, plant & machinery at newly manufacturing unit located at 251-B, Royal Industrial Park, Vill. Modi Pardi, "Ta. Mangrol, Surat-394120, Gujarat. This unit is engaged in polishing and finishing stainless steel sheets.

Unit 2 (for backward integration) – Live Photos



Unit 2 – 251-B, Royal Industrial Park, Vil. Moti Pardi, Ta. Mangrol, Surat-394120, Gujarat (Photo courtesy : Our member who visited the factory)

- Commissioned in February 2019, Moti Pardi unit is the back integration of Aaron's primary product portfolio i.e. elevator doors and cabins.
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- Apart from elevators, stainless sheet is used in a variety of industries such as food storage, architectural & construction, appliances and many more.

Investment Rationale

Expansion & Backward Integration

Aaron industries entered into Steel polishing segment which is backward integration of its existing elevator business

Growth (5 Yrs. CAGR)

Sales - 49.74%
Profit - 117.12%

Returns (5 Years Avg.)

ROCE - 18.61%
ROE - 16.75%
ROA - 31.37%



Trusted Brand

Aaron is sister company of Moti Group which is in operation of more than 50 years.

Future Demand

Rising urbanization and various infrastructure projects will lead to increase in demand for elevators.

Advancement in Technology

Company is also looking to grab opportunities in business of trading and services of Hydraulic Lift and accessories along with Automobile parking solutions and Gate mechanism services.

Growth Drivers

- ❑ **Pradhan Mantri Awaas Yojana:** Pradhan Mantri Awaas Yojana was launched in June 2015 with an aim to provide affordable housing in urban poor including Economically Weaker Sections and Low-Income Groups by building 2 crore houses by the year 2022 through a financial assistance of 2 trillion (US\$ 28 billion) from the central government in a phased manner.
- ❑ **Urbanization:** India is a developing nation undergoing rapid urbanization coupled with a population influx into Tier 1 & 2 cities as metros have almost reached their capacity. This increased urbanization will result in the construction of more commercial, residential, vehicle parking, and public transportation buildings, which eventually will lead to the adoption of elevators.
- ❑ **Growth of Real Estate:** Growth in the residential real estate market drives the elevator market since, with every high-rise and mid-rise building, it is essential to have elevators. In the retail & non-residential real estate space, the construction of shopping malls, airports, metro stations, and hospitals require the use of elevators. The growth of the Real Estate industry is a major demand driver for elevators.
- ❑ **Opportunity as a Regional Vendor:** Regional elevator vendors are able to provide elevator parts & services at reasonable prices. Customers prefer to buy elevator parts from the regional market vendors because of the product customization, ease of service support and cost advantages in service
- ❑ **Demand from Replacement:** Market Modernization of aging elevators in mature metro cities is also a major growth driver for the Elevator market. Demand for services in this segment will boost overall market growth.
- ❑ **Service Transformation Using Technology:** The industry is putting efforts to develop tools that will enable field employees to be more efficient, source information faster, develop even stronger ties with the customer and see a problem before it becomes one. Through IoT and more connectivity, customers get more transparency, more information and a streamlined process to reach out to their maintenance company. In a quick paced urbanized setting, maintenance is a critical aspect as it is important to ensure the performance standard of the elevator and escalator is maintained, as well as to prolong the life of the equipment. This applies to elevators and escalators in buildings across all sectors, including government. Companies with an extensive network and strong commitment to service are better suited to cater to customers.

Competitive Strength (1/2)

- ❑ **Management and Employee expertise:** The promoters have been actively involved in the business from continues personal attention. Further, the management has adequate and rich experience in their business. The team comprises of personnel having operational and business development experience. They believe that the management experience and their understanding of the industry will enable them to continue to take advantage of both current and future market opportunities. The Company is having a number of experienced staff. There is a good communication system between all the levels of management level i.e. from top level management to bottom level. The Management's experience and knowledge enables us in addressing and mitigating various risks inherent in their business, including competition, the global economic crisis related effects and fluctuations in the prices.
- ❑ **Growing Domestic Economy:** The country is moving towards developing country to developed countries. GDP rate of India is also higher comparative to other countries. It forecast more demand of products.
- ❑ **Quality products:** They believe in providing quality products to their customers. They are devoted to quality assurance. The quality checks ensure that no defective products reached the customer and ensure reduced process rejection. They believe that their quality products have earned us a goodwill from their customers, which has resulted in customer retention and order repetition also new addition to the customer base. Further, their Company is an ISO 9001:2015 certified Company. Their Manufacturing facility has also in-house QA-QC and quality control system for quality control purpose. They have developed internal procedure of checking the products at each stage of production right from receipt of raw material to dispatch of their products. their Company focuses on consistently delivering qualitative products, thereby building customer loyalty for their products.

Competitive Strength (2/2)

- ❑ **Needs of customers:** They have high level of knowledge about the needs of customers, resulting from continuous two-way communication between their representatives and customers. They carefully cover the study of each customer's needs. They make them aware of all available options and provide them with a competent advice enabling them to take an informed business decision. their aim is to earn customer's trust and confidence through personal attention, passion for what They do and commitment to long-lasting relationship. They will go an extra mile to deliver customers' a measurable business value and help them adopt and succeed in the Elevator industry.
- ❑ **High level of customer satisfaction:** Their customer is highly satisfied with their services from purchase order to quality to delivery to customer complain redressal mechanism.
- ❑ **Loyal Human Resources:** The Company is having highly skilled and motivated employees. Their skills can be used for the growth of the Company. the organization provides a healthy work environment to employees, it results into loyal workforce.
- ❑ **Existing distribution and sales networks:** The Company is having good channel for distribution to the elevator retailers, elevator installers as well as end use customers. We have excellent domestic market within the Gujarat and India. Further the Company is looking forward for expansion of its geographical market as there is lots of opportunities in International region.
- ❑ **Location:** The Company is situated at well-developed industrial area, with all the infrastructure facilities and both skilled and unskilled manpower are available at competitive cost.

Segmental Analysis

	Elevator Division			Steel Polishing Division			Electrical Division		
	Mar-19	Mar-20	Mar-21	Mar-19	Mar-20	Mar-21	Mar-19	Mar-20	Mar-21
Sales (INR. Cr.)	14.93	18.36	15.91	0.01	1.64	7.70	2.61	1.39	1.32
Sales Growth %	-	22.97%	-13.34%	-	16300.00%	369.51%	-	-46.74%	-5.04%
Profit Before Tax (Cr.)	7.25	6.96	6.66	-2.16	-3.03	-2.7	1.14	0.67	0.67
PBT Margins %	48.56%	37.91%	41.86%	-21600.00%	-184.76%	-35.06%	43.68%	48.20%	50.76%
Segment Assets (Cr.)	5.68	5.44	5.44	8.61	10.27	14.24	0.71	0.56	0.44
Assets Turnover	2.63	3.38	2.92	0.00	0.16	0.54	3.68	2.48	3.00

- ❑ The sales of **elevators segment** declined by 13.34% in the FY21 as compared to previous sector, the likely reason would be slowdown in real estate sector. We expect sales will recovered as it is temporary impact of lockdown. **In the Elevator division, on an average the company is able to generate 3x of the revenue on its assets.**
- ❑ In the FY19, the company has entered into **steel polishing business**, by making an investment of more than 7 Cr. in the land, building, plant & machinery. The revenues from this business is rising rapidly, **in the FY21, the steel business contributes 31% in the total revenues.** The PBT of the steel business is negative due to the high cost on interest and depreciation. It seems the decision of entering into this segment is wise, and it is expected soon the steel polishing business will contribute significantly in the total profits.
- ❑ The revenue from **electrical division** is declining over the last two years this may be due to management might want to focus on other two sectors. The electrical business is their legacy business, but Mr. Amar Doshi wanted to enter in the elevator business, hence Aaron industries have came into picture with an objective to redesigned the elevator industry.

Profit & Loss Analysis

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Revenue (INR Cr.)	3.31	4.8	11.77	17.55	21.4	24.92
Operating Profit (INR Cr.)	0.14	0.25	1.56	2.04	3.05	3.41
Operating Profit Margins (%)	4.23%	5.21%	13.25%	11.62%	14.25%	13.68%
Net Profits (INR Cr.)	0.04	0.05	0.93	1.06	1.42	1.93
Net Profit Margins (%)	1.21%	1.04%	7.90%	6.04%	6.64%	7.74%
EPS (INR)	1	1.25	2.32	1.06	1.42	1.92
Interest Coverage Ratio (times)	1.75	1.47	11.14	7.03	5.17	7.75

- ❑ In the FY21, the revenue jumped by 16.45%, increased to 24.92 Cr. as against 21.4 Cr. in the previous year, **the steel polishing business have played a crucial role in this growth as the revenue from the steel business have increased by 370% in the same period.**
- ❑ **The revenue of the company have grown at a CAGR of 49.74% during the FY16 - FY21, and net profit have grown at 117.12% during the same period. The EPS have grown at a CAGR of 13.94% over the last 5 years,** the growth is low as compare to profits growth because of increase in the number of total outstanding shares as fresh issue and bonus issue.
- ❑ The average of five years operating profit margins of the company is 11.60% and that of net profit margins is 5.87%. We are expecting that the operating margins would rise because of reduction in operating cost on account of backward integration. Also, the net profit margins would likely to improve with the reduction in the interest cost. As of now, there is negative PBT from steel business, but we are optimistic that sales would likely to grow and hence the profit margins would improve.
- ❑ In the FY20, the interest coverage ratio is declined to 5.17 times on account of rise in burrowing so as to meet the additional investment requirements in steel polishing division.

Balance Sheet Analysis

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Share Capital	0.19	0.19	1.88	4.78	5.26	10.04
Reserves	0.05	0.1	1.66	4.59	5.54	2.13
Borrowings	1.15	1.33	1.05	5.27	5.21	5.61
Trade Payables	0.77	0.77	1.84	1.61	1.55	0.95
Fixed Assets	0.1	0.12	1.45	8.71	9.29	12.89
CWIP	0	0	0	0	0.36	0.5
Investments	0	0	0	0.04	0.22	0
Inventories	1.19	1.5	3.31	4.6	5.57	6.12
Trade receivables	0.76	0.7	1.56	1.84	2.51	1.73
Cash Equivalents	0.08	0.02	0.01	0.38	0.15	0.11
Loans n Advances	0.09	0.22	0.58	1.63	0.78	0.24
Working Capital	1.29	1.5	3.14	5.89	6.14	4.39

- ❑ The company have raised IPO in the FY18-19 to financed the expansion also the funds have been raised through borrowed funds. To reduce the dependency on borrowed funds the company has used its reserves by issuing bonus shares In the FY19-20 the company issued bonus shares in the ratio 1:10 and in the FY20-21 it is been given in the ratio 10:11.
- ❑ **The trade payables of the company is declining** because of the two reasons first, the company's credit paying period is declined, second with the backward integration the dependency on outside vendor has been reduced.
- ❑ **Collection period has been reduced to 31 days in the FY20-21 from 42 days in the FY15-16.** Stock of inventories is rising over the years as the inventory holding period is rising on an average the stock of inventory remains in the warehouse for about 130 days, thus this made cash conversion cycle longer.
- ❑ **Fixed asset has increased multifold from just 1.45 Cr in 2018 to 12.89 Cr on 2021;** during 2018 sales was ~ 11.77 Cr while in 2021 sales is only 24.92 it means there is lot of headroom to growth the sales.

Cash Flow Analysis

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Total
Profit from operations	0.06	0.08	1.56	2.03	3.05	3.46	10.24
Cash from Operating Activity (CFO)	-0.91	-0.06	-0.47	-0.15	1.39	3.28	3.08
Changes in the following items as compared to previous year (PY)							
A) Inventory	-0.9	-0.31	-1.82	-1.28	-0.97	-0.56	-5.84
B) Trade Receivables	-0.15	0.06	-0.86	-0.28	-0.67	0.68	-1.22
C) Trade Payables	0.23	0	1.22	-0.23	-0.06	-0.6	0.56
Total (A+B+C)	-0.82	-0.25	-1.46	-1.79	-1.7	-0.48	-6.5
Cash from Investing Activity (CFI)	-0.02	-0.03	-1.51	-7.71	-1.5	-4.29	-15.06
A) Fixed assets purchased	-0.03	-0.04	-1.43	-7.46	-1.5	-4.63	-15.09
Cash from Financing Activity (CFF)	0.93	0.03	1.97	8.24	-0.13	1.22	12.26
A) Proceeds from shares	0.15	0	2.32	2.9	0	0	5.37
B) Proceeds from borrowings	0.79	0.02	0.27	3.46	0.75	1.51	6.8
C) Repayment of borrowings	0	0	-0.61	0	-0.88	0	-1.49
Net Cash Flow	0	-0.06	-0.01	0.38	-0.24	0.21	0.28

- ❑ The company is only **able to convert 30% of its operating profit into CFO as per the 6 years cumulative data**. The main reason of such low conversion rate is increasing inventory stock, over the last 6 years, it can be seen the cumulative increase in the stock is 5.84 Cr.
- ❑ Over the years it can be seen that Aaron industries is expanding its fixed assets, which suggests that company is optimistic about its business. The major CAPEX was incurred in the FY19 as the company entered into steel polishing segment, entering into this division is strategic decision as the steel polishing business is backward integration of its existing elevators business.
- ❑ The company has financed the expansion through IPO and borrowed funds, thus **over the last 6 years the company has raised 12.26 Cr. of capital equity and debt fund and invested about 15 Cr. in its fixed assets**. It is expected that the investment will soon bear fruits in the form of increased revenues and thus the company will be able to payoff its debt.

Ratio Analysis

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Debt to Equity	4.79	4.59	0.30	0.56	0.48	0.46
ROCE (%)	10.07%	15.43%	33.99%	13.93%	19.05%	19.18%
ROIC (%)	2.99%	6.98%	14.75%	7.66%	12.35%	14.32%
ROE (%)	16.67%	17.24%	26.27%	11.31%	13.15%	15.86%
Asset Turnover	33.10	40.00	8.12	2.01	2.30	1.93
Cash Conversion Cycle (days)	84	125	93	111	132	133
Current Ratio (CA/CL)	2.57	2.60	2.32	3.05	2.98	2.11

- ❑ The company has undergone for expansion and made an investment of more than 7 Cr. in the steel polishing business, hence the funds was arranged partly through IPO in the FY18-19 and partly through borrowed funds.
- ❑ The company is able to generate an appropriate returns on its capital, further it is to be noted that the decline in the returns from FY18 is due to increased proportion of capital employed on account of fresh issue and borrowed funds so as to meet the requirements of expansion. The fruit of expansion will soon gets reflected in the form of profits.
- ❑ **The asset turnover of the company has declined as there was increment in the fixed assets by 6x in the FY18- 19**, also due to the lockdown and economic slowdown the revenue from elevators business declined. But it is expected sales will grow in the near future as steel polishing segment is growing rapidly.
- ❑ The company can meet its short term liabilities as current assets are sufficient as against current liabilities. The cash conversion cycle is getting longer due to the inventory holding period is increased.

Quarterly Results Update

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Sales	5.93	5.71	3.3	8.37	6.55	6.7
Growth (QOQ)		-3.71%	-42.21%	153.64%	-21.74%	2.29%
Expenses	5.23	4.57	3.2	7.48	5.4	5.43
Operating Profit	0.7	1.14	0.1	0.89	1.15	1.27
OPM %	11.80%	19.96%	3.03%	10.63%	17.56%	18.96%
Other Income	0.02	0.02	-0.01	0.04	0	0.09
Interest	0.14	0.15	0.13	0.15	0.17	-0.01
Depreciation	0.14	0.14	0.14	0.15	0.17	0.17
Profit before tax	0.44	0.87	-0.18	0.63	0.81	1.2
Net Profit	0.28	0.56	0.04	0.46	0.6	0.83
NPM %	4.72%	9.81%	1.21%	5.50%	9.16%	12.39%
EPS in Rs	0.28	0.56	0.03	0.46	0.6	0.83

- ❑ In the 1st quarter of FY21, there was decline of 42.21% of revenues on the account of nationwide lock down, but **sales recovered in the 2nd quarter which was the highest revenue generating quarter in the FY21.**
- ❑ **The operating margins of the company is improving as the phase-I expansion has been done**, now the steel polishing segment came into operations this has reduced the dependency on outsiders vendors.
- ❑ **In the last quarter of FY20-21, the sales have jumped by 17.34% and the net profits have grown by 48.21% on year on year basis.**
- ❑ In the FY20-21, net profit margins have increased to 12.39% in the 4th quarter as against 9.16% in the 3rd quarter mainly because there was net inflow of interest.

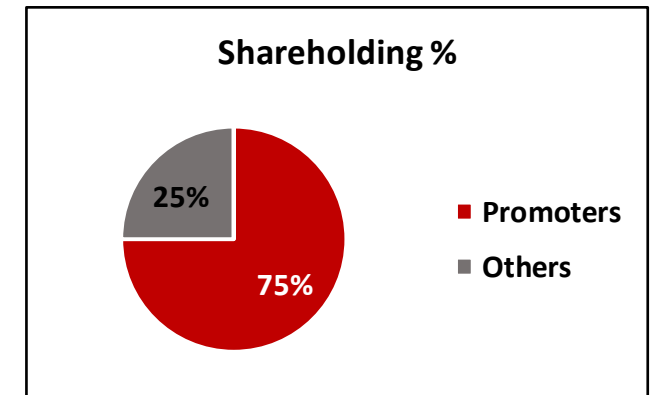
Key Management & Shareholding Pattern

Mr. Amar Doshi is the promoter along with the Chairman and Managing Director of Aaron Industries. He completed final examination of technical examination Board of Gujarat state in April, 1984. He holds a certificate of Diploma in Man Made Fiber Fabrics (with in Plant Training). He has over 30 years of experience in business and industry and more then 4 years of experience in the elevator sector. Since Corporation of the company, his responsibility in our company involves handling the overall business affairs of the company including planning, marketing strategies, capacity expansion and business development of our company. He is not a director in the other Public Limited Companies



Mr. Karan Doshi is the Whole Time Director and promoter of Aaron Industries. He is associated since incorporation and has been appointed as Whole Time Director with effect from 01/02/2018. He holds a bachelor's degree of Engineering from University of Pune in year May, 2009. Further in the year 2011 he has also obtained his Master in Science Mechanical Engineering from University of Southern California. He has around 7 years of business experience and 4 years of experience in the elevator sector Industry. He is not a director in the other Public Limited Companies.

- ❑ **Strong Promoters holding of 74.97% shows that promoters are having high skin in the game.**
- ❑ Shareholding of HNI investors (those having greater than 10K shares -OR- more than Rs 10 Lacs worth of this share as on today's price) has increased from 6.71% in Sep'18 to 12.59% in Mar'21. **It means strong hands are cornering this stock.**
- ❑ At the same time, shareholding of Retail investors (those having less than 10K shares -OR- less than Rs 10 Lacs worth of this share as on today's price) has come down from 13.80% in Sep'18 to 10% in Mar'21. **It means weak hands are exiting from this stock.**



Risks & Concerns

Any sudden change in technology will affect the demand for the company's product.

Change in technology

Primary raw materials required for manufacturing are M.S.Bar, patti, S.S.Sheet, CRC Sheet, thus any increase in the cost of steel will impact on the cost of production.

Change in the price of Raw Materials

Dependency on real estate sector

The elevator business is depend on the real estate sector. Slow down in the real estate will affect the revenue.



The company is facing competition from unorganized sector and other multinational players.

Competition from unorganized Sector

Small Scale of Operations

Aaron industries is in its initial growth stage. The other big players have the advantage of economies of scale.

Summarize our micro-cap multibagger

- ❑ **Small in Size** - M Cap Below 100Cr | Good ROCE/ROE | Healthy Promoter Holding | Dividend Paying | 5Y Sales Growth ~ Excellent | 5Y Profit Growth ~ Exceptional.
- ❑ **Medium in Experience** - Business group started 5 decades back; 2nd generation father & his 3rd generation two sons started this niche business 8 years back.
- ❑ **Large in Aspiration** - Niche focused business, Capex done, Phase-1 started producing results, Phase-2 will commence.
- ❑ **Extra-large in Market Potential** - It is operating in multi-billion dollar industry. Rapid urbanization and vertical growth of cities are being considered major reasons for the growth of this industry.

Q1FY22 is going to be great for this company...

Key triggers...

- ❑ They have started manufacturing of Stainless Steel Press Plate for High-Pressure Laminate (HPL) from Apr'21 at the company's Kosamba plant in Surat.
- ❑ They have announced the launch of its new product i.e. Etch Designer Sheet on May 8, 2021.
- ❑ With the new steel polishing segment, there would be a reduction in logistics cost, procurement cost, and execution time; thus Increases in Revenues + Reduction in cost.
- ❑ The company has improved its collection efficiency; Debtor days have reduced to 25 days in FY21 from 42 days in FY20.
- ❑ Backward integration helps in cost reduction that can be witnessed through rising Operating Margins ~ 18-20%
- ❑ Q1FY22 - Sales Expected around 8-10Cr; OPM ~ 18-20%; Net Profit around 1-1.2 Cr ; EPS ~ 1-1.2
- ❑ FY22 - Sales Expected around 32-40Cr; OPM ~ 18-20%; Net Profit around 4-4.4 Cr ; EPS ~ 4-4.4
- ❑ **Considering FY22 EPS of 3-4 also, stock is trading at PE of 25-30 which is reasonably priced at forward earnings.**

Future Outlook

India is the second largest market for elevators and escalators in the world according to independent analysts. The sector is anticipated to cross \$2 billion by 2023. This rise is expected mainly due to vital factors including increasing urbanization, development of the real estate sector, and increasing number of multi-storey residential and commercial buildings across the country. This projected growth in the residential segment will remain the principal contributor to the construction industry. Low-cost and affordable housing will be a big aspect. Another factor in this industry is investments in infrastructure and commercial projects. Increased focus on developing, increasing & modernizing airports, development of metro rail projects, and redevelopment of railway stations, offers opportunities in the infrastructure segment in the long term.

“Despite the pandemic, India remains a growing economy with great potential for infrastructural development: “The elevator and escalator market size in India has the potential to grow by USD 659.2 million from 2020 to 2024, and the market’s growth momentum will accelerate during the forecasted period due to the steady increase in year-over-year growth”

Manish Mehan

CEO, TK Elevator India

In addition, smart connected buildings, Internet of Things capabilities, and evolving standards of safety and quality will also be elements that benefit manufacturers with a strong appetite for investments in technology. A smart elevator is a connected elevator capable of communicating with passengers, building managers, service staff, and other building systems to improve the passenger experience and elevator performance, especially through improved elevator maintenance. The next developments in elevator technology leverage digitalization. Existing technologies constantly evaluating real-time passenger traffic to improve flow and travel time in busy mid- and high-rise buildings, are the start of this trend. Engineers are also working to develop the next generation of elevators. This new generation, will for the first time, connect manufacturing to installation to service, allowing delivering to the customer a totally different service. Building on the theme of connectivity, the service business will shift globally to incorporate smart, connected technology that delivers proactive, quick, and effective diagnostics and repair.

Due to increasing urbanization and developments, the demand for vertical transportation is constantly increasing. It serves as a necessity rather than luxury. As urbanization continues to grow, the need for housing and commercial space will grow. Hence, India’s elevator industry will continue to grow just as rapidly. We can also anticipate the next developments in elevator technology to be digitalization and the emphasis should be on passenger experience.

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, the analyst have no position in the stock covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.