Aequs | REDUCE

Weak results; currency can provide some relief

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Aequs' Q4FY26 EBITDA significantly missed JMFe as ramp-up in consumer electronics led to full opex impact (versus partial cost capitalisation earlier). Working capital remained significantly elevated on inventory build-up in the aerospace business. In the near term, working capital may remain elevated on account of supply chain disruptions due to the West Asia crisis, but we believe this will be a transient effect. Management guided for consumer EBITDA breakeven in Q4FY27 and potential PAT breakeven after H1FY28 as consumer ramps up. INR depreciation against USD provides some relief (93%+ of sales USD linked); nevertheless, we cut FY27E/28E EBITDA estimates by 16%/10%, factoring in higher opex. Our TP goes up to INR 210 as we raise our FY30E exit multiple to 26x (22x earlier) to factor in 25% re-rating in aerospace peers. Downgrade to REDUCE. The sharp re-rating in recent months largely factors in strong future growth.

- **EBITDA miss on widening loss in consumer segment**: Q4FY26 sales at INR 3.67bn (+47% YoY) was 7% above our estimate with beat entirely led by aerospace. However, consumer ramp-up was marginally below our estimate. Aerospace EBITDA margin at 33% (includes other income and prior to unallocable costs) are significantly above our estimate of 25%. However, consumer losses deepened as full impact of opex was felt in the P&L versus some portions capitalised previously. Hence, EBITDA at INR 42mn (-83% YoY) missed our estimate of INR 388mn.

- **Sharp rise in inventory impacts cash flows:** OCF for FY26 was an outflow of INR 0.99bn due to significant working capital build-up attributable to the West Asia crisis, which has elongated the logistics chain; consequently, inventory levels had to be increased by 4–6 weeks to meet aerospace demand. In particular, lead time in components like titanium and special steel alloys has increased to as high as 52–65 weeks. We may continue to see some impact of the crisis in H1FY27. However, margins have not been impacted.

- **Guides for 2x EBITDA growth for FY27, 40–50% sales growth:** Management targets 2x EBITDA in FY27, which seems reasonable considering strong margins sustaining in aerospace and under-recoveries reducing in consumer. Nevertheless, that is slower than our earlier estimate of consumer ramp-up and higher opex losses, leading to 16%/10% EBITDA cuts for FY27E/28E. Top line growth of 50% is also reasonable with aerospace orderbook at USD 889mn. Management also guided for consumer EBITDA breakeven in Q4FY27 and aerospace margins sustaining. In the long term, management expects aerospace and consumer margins to converge.

- **Capex intensity remains strong:** Management guided for aerospace capex of INR 1.6bn and consumer capex of INR 5.0bn for FY27. Currently, gross block for consumer is INR 8.3bn and further capex appears to be aimed at scaling up the business. Management said it will be funded by debt and internal accruals.

- **Trades at 62x FY28 EV/EBITDA, raise FY30 exit EV/EBITDA to 26x to account for 25% sector re-rating**: We had previously valued Aequs at 22x FY30E EV/EBITDA benchmarking it with aerospace peers. Since then, aerospace has re-rated by 25%. Applying the same benchmark, our exit EV/EBITDA is 26x FY30E discounted back to FY27, leading to a higher TP of INR 210, close to CMP. Hence, we downgrade to REDUCE. The recent stock rally from ~INR 140 to INR 200+ largely captures the strong growth we anticipate in aerospace and significant ramp-up in consumer electronics.

Recommendation and Price Target	
Current Reco.	REDUCE
Previous Reco.	BUY
Current Price Target (12M)	210
Upside/(Downside)	-0.9%
Previous Price Target	N/A
Change	+44.8%

Key Data – AEQUS IN	
Current Market Price	INR212
Market cap (bn)	INR141.9/US$1.5
Free Float (%)	14.6
Shares in issue (mn)	670.7
Diluted share (mn)	670.7
3-mon avg daily val (mn)	INR538.1/US$5.7
52-week range	INR224/113
Sensex/Nifty	76,010/23,914
INR/US$	95.7

Price Performance

%	1M	6M	12M
Absolute	13.6	0.0	0.0
Relative*	15.6	0.0	0.0

*To the NSE Nifty 50

Financial Summary					(INR mn)
Y/E Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	9,651	9,246	12,304	18,923	26,219
Sales Growth (%)	18.8	-4.2	33.1	53.8	38.6
EBITDA	1,223	734	891	1,622	2,460
EBITDA Margin (%)	12.7	7.9	7.2	8.6	9.4
Adjusted Net Profit	-87	-1,024	-1,133	-897	-914
Diluted EPS (INR)	-0.1	-1.8	-1.7	-1.3	-1.4
Diluted EPS Growth (%)	-	-	-	-	-
ROIC (%)	4.2	-3.7	-5.8	-1.3	0.9
ROE (%)	-1.6	-13.4	-10.3	-6.2	-6.8
P/E (x)	-	-	-	-	-
P/B (x)	21.6	17.2	9.5	10.2	10.9
EV/EBITDA (x)	116.1	198.3	159.9	91.7	62.5
Dividend Yield (x)	-	-	-	-	-

Source: Company data, JM Financial. Note: Valuations as of May 26, 2026

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Q4FY26 results significantly below estimates

Results dragged by weaker profitability in consumer segment

- **Revenue ahead of estimates**: Revenue at INR 3.67bn (+47% YoY) came in 7% ahead of JMFe. Segment wise, aerospace revenue was INR 3.03bn (+29% YoY), 10% ahead of our estimates, while consumer revenue was INR 631mn (+5x YoY), missing JMFe by 3%.
- **Profitability significantly weaker than estimates led by sharp fall in consumer segment margin:** EBITDA at INR 42mn, down 83% YoY, missed JMFe by ~90%. This was due to rise in employee costs and 'other expenses' that were partially capitalised in previous quarters. Segment wise, EBITDA loss for the consumer segment widened to INR 473mn (INR 1.3mn YoY) with EBITDA margin declining to -75% (JMFe= -20%). Aerospace reported healthy EBITDA of INR 1.0bn rising ~1.4x YoY with EBITDA margin at 33.2%, ahead of our estimate of 25%.
- **PAT loss widens YoY**: Q4FY26 PAT loss was INR 540mn versus INR 426mn loss in Q3FY26 and INR 91mn profit in Q4FY25. This was significantly higher than JMFe of PAT loss of INR 116mn.

Exhibit 1: Sharp decline in profitability for the consumer segment; aerospace continues to report healthy margins

INR mn	4QFY25	3QFY26	4QFY26	JMFe	% YoY	% QoQ	Vs JMFe
Segmental sales							
Aerospace	2,360	2,685	3,040	2,769	29%	13%	10%
Consumer	133	577	631	652	376%	9%	-3%
Segmental EBITDA							
Aerospace	485	633	1,010	692	108%	60%	46%
Consumer	-1	-159	-473	-130			
Segmental EBITDA margin	**18.2%**	**13.3%**	**11.4%**	**15.0%**			
Aerospace	20.5%	23.6%	33.2%	25.0%			
Consumer	-1.0%	-27.5%	-74.9%	-20.0%			

Source: Company, JM Financial

Exhibit 2: Q4FY26 results snapshot: Significant miss on profitability led by higher employee costs and other expenses

INR mn	4QFY25	3QFY26	4QFY26	JMFe	% YoY	% QoQ	Vs JMFe
Revenues	2,493	3,262	3,671	**3,420**	47%	13%	7%
Gross profit	**1,408**	**1,990**	**2,170**	**2,086**	54%	9%	4%
GPM (%)	*56%*	*61%*	*59%*	*61%*			
Employee benefits	382	561	620	536	63%	11%	16%
% of sales	15%	17%	17%	16%			
Other expenses	757	1,139	1,521	1,163	101%	34%	31%
% of sales	30%	35%	41%	34%			
EBITDA	**247**	**290**	**42**	**388**	-83%	-86%	-89%
EBITDA margin (%)	*10%*	*9%*	*1%*	*11%*			
DDA	242	350	455	380	88%	30%	20%
EBIT	**5.05**	**-60.16**	**-412.98**	**7.43**			
EBIT margin (%)	*0%*	*-2%*	*-11%*	*0%*			
Interest costs	134	208	358	250	168%	73%	43%
Other income	171	91	279	150	63%	208%	86%
PBT post JV reported	**59.9**	**-329.7**	**-332.8**	**-72.6**			
Taxation	**-31.2**	**96.8**	**208.1**	**43.5**			
Current tax	59.58	134.55	155.81				
Deferred tax	-90.73	-37.79	52.31				
Taxation rate (%)	*-52%*	*-59%*	*-49%*	*-60%*			
PAT reported (continuing)	**91**	**-426**	**-541**	**-116**			

Source: Company, JM Financial

Q4FY26 conference call takeaways

- **Management expects revenue growth of 45–50% in FY27 and 2x EBITDA growth**: It expects this to be supported by 125–150% revenue growth in the consumer segment and 25–30% growth in the aerospace segment. It expects EBITDA to double in FY27 from FY26 levels with consumer business expected to break even in Q4FY27. For the aerospace business, it expects EBITDA margin to sustain at ~20% (after deducting other income and other unallocable costs). Management expects consolidated PAT to break even in H1FY28.

- **Capex guidance of INR 6.6bn for FY27 largely towards consumer business**: Management guided for capex of INR 6.6bn in FY27 with INR 5bn to be spent on the consumer business. Currently, consumer gross block is INR 8.3bn.

- **Impact of the West Asia crisis, large build-up in working capital**: Management noted that supply chain constraints due to the West Asia crisis are raising logistics costs and expanding the working capital cycle. In particular, inventory levels for aerospace have increased by 4–6 weeks and may remain so during the conflict. However, there was no significant impact on profitability due to the crisis. Prices of plastics for toys have gone up but that can be passed on to the customer under back-to-back pricing arrangements.

- **Outlook for consumer business**: According to management, the consumer business has been scaling steadily and is now 17% of sales. Utilisation is currently 23% (FY26) and management expects it to improve to 42–50% by FY27. Aequs plans to invest in the business to further expand capacity. It also noted that the order cancellation from Hasbro is unlikely to have any material impact on growth and is likely to have offsets as Mattel procurement expands. It expects the consumer business to achieve EBITDA breakeven by Q4FY27 but remain PAT negative due to elevated levels of depreciation. Over the long term, management targets to achieve 20% EBITDA margin for the consumer business led by rise in asset utilisation (target peak asset utilisation at 1.5x, implying 75% capacity utilisation).

- **Revenue could benefit from 90%+ USD exposure**: Management quantified that 93–94% of revenue has USD exposure and, thus, could benefit from INR depreciation.

Change in estimates

Exhibit 3: EBITDA estimates cut by 17%/10% for FY27E/28E

INR mn	New		Old		Old vs New	
	FY27	FY28	FY27	FY28	FY27	FY28
Revenue	18,923	26,219	19,983	26,834	-5.3%	-2.3%
EBITDA	1,622	2,460	1,943	2,746	-16.5%	-10.4%
EBITDA margin (%)	*8.6%*	*9.4%*	*9.7%*	*10.2%*		
PAT	(897)	(914)	(537)	(442)	NM	NM

Source: JM Financial

Valued at 26x FY30E EV/EBITDA; downgrade to REDUCE

We had previously valued Aequs at 22x FY30E EV/EBITDA benchmarking it with aerospace peers. However, since then, the aerospace segment has re-rated by 25%. Applying the same benchmark, our exit EV/EBITDA is 26x FY30E discounted back to FY28 leading to a higher TP of INR 210, which is close to the current share price. Hence, we downgrade Aequs to REDUCE. The recent stock price rally from ~INR 140 to INR 200+ largely captures the strong growth we anticipate in aerospace and significant ramp-up in consumer electronics.

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	9,651	9,246	12,304	18,923	26,219
Sales Growth (%)	18.8	-4.2	33.1	53.8	38.6
Other Operating Income	-	-	-	-	-
Total Revenue	**9,651**	**9,246**	**12,304**	**18,923**	**26,219**
Cost of Goods Sold/Op. Exp	4,166	3,922	4,948	7,609	10,543
Personnel Cost	1,434	1,587	2,122	2,979	3,997
Other Expenses	2,828	3,003	4,344	6,712	9,219
EBITDA	**1,223**	**734**	**891**	**1,622**	**2,460**
EBITDA Margin (%)	12.7	7.9	7.2	8.6	9.4
EBITDA Growth (%)	252.9	-40.0	21.4	82.1	51.6
Depn. & Amort.	1,077	1,034	1,377	1,797	2,295
EBIT	146	-300	-486	-175	165
Other Income	232	346	654	244	54
Finance Cost	638	589	924	814	1,093
PBT before Excep. & Forex	-260	-543	-756	-744	-875
Excep. & Forex Inc./Loss(-)	186	-483	-77	-	-
PBT	-73	-1,026	-833	-744	-875
Taxes	100	83	418	232	119
Extraordinary Inc./Loss(-)	-	-	-	-	-
Assoc. Profit/Min. Int.(-)	17	85	118	80	80
Reported Net Profit	-87	-1,024	-1,133	-897	-914
Adjusted Net Profit	**-87**	**-1,024**	**-1,133**	**-897**	**-914**
Net Margin (%)	-0.9	-11.1	-9.2	-4.7	-3.5
Diluted Share Cap. (mn)	832	582	671	671	671
Diluted EPS (INR)	**-0.1**	**-1.8**	**-1.7**	**-1.3**	**-1.4**
Diluted EPS Growth (%)	-	-	-	-	-
Total Dividend + Tax	-	-	-	-	-
Dividend Per Share (INR)	-	-	-	-	-

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders Fund	8,156	7,160	14,855	13,959	13,045
Share Capital	8,319	5,818	6,707	6,707	6,707
Reserves & Surplus	-153	1,351	8,158	7,262	6,348
Preference Share Capital	-	-	-	-	-
Minority Interest	-9	-9	-9	-9	-9
Total Loans	2,919	4,371	4,036	8,096	11,685
Def. Tax Liab. / Assets (-)	-127	-162	-208	-293	-393
Other non-current liabilities / Lease Liabilities	4,077	3,783	3,139	3,139	3,139
Total - Equity & Liab.	**15,152**	**15,313**	**22,030**	**25,194**	**27,869**
Net Fixed Assets	8,356	9,203	11,488	15,991	19,196
Gross Fixed Assets	10,835	10,537	17,364	23,664	29,164
Intangible Assets	655	173	173	173	173
Less: Depn. & Amort.	4,888	5,458	6,835	8,632	10,927
Capital WIP	1,754	3,951	787	787	787
Investments	919	768	1,055	1,055	1,055
Current Assets	8,955	8,628	14,362	14,950	17,284
Inventories	3,541	4,083	5,674	7,272	9,276
Sundry Debtors	1,369	1,566	2,646	2,994	3,710
Cash & Bank Balances	2,520	798	3,567	1,317	-52
Loans & Advances	-	-	-	-	-
Other Current Assets	1,525	2,181	2,475	3,367	4,350
Current Liab. & Prov.	3,078	3,285	4,875	6,802	9,666
Current Liabilities	2,918	3,500	4,555	6,053	8,435
Provisions & Others	160	-214	320	749	1,231
Net Current Assets	4,984	4,151	8,156	6,395	5,400
Other Non Current Assets/ROU Assets	893	1,191	1,331	1,753	2,218
Total - Assets	**15,152**	**15,313**	**22,030**	**25,194**	**27,869**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	-87	-1,024	-1,133	-897	-914
Depn. & Amort.	1,077	1,034	1,377	1,797	2,295
Net Interest Exp. / Inc. (-)	638	589	924	814	1,093
Inc (-) / Dec in WCap.	-1,455	-652	-1,693	-910	-839
Others	-363	314	-462	-244	-54
Taxes Paid	-	-	-	-	-
Operating Cash Flow	**-191**	**261**	**-988**	**560**	**1,582**
Capex	-1,556	-2,648	-3,411	-6,300	-5,500
Free Cash Flow	-1,747	-2,387	-4,399	-5,740	-3,918
Inc (-) / Dec in Investments	17	-147	-287	-	-
Others	-1,895	2,057	-9	244	54
Investing Cash Flow	**-3,434**	**-738**	**-3,707**	**-6,056**	**-5,446**
Inc / Dec (-) in Capital	5,005	23	9,395	-	-
Dividend + Tax thereon	-	-	-	-	-
Inc / Dec (-) in Loans	-370	861	-841	4,060	3,589
Others	-730	-591	1,639	-814	-1,093
Financing Cash Flow	**3,905**	**293**	**10,193**	**3,247**	**2,496**
Inc / Dec (-) in Cash	**280**	**-183**	**5,498**	**-2,249**	**-1,369**
Opening Cash Balance	513	793	798	3,567	1,317
Closing Cash Balance	2,520	798	6,296	1,317	-52

Source: Company, JM Financial

Dupont Analysis					
Y/E Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin (%)	-0.9	-11.1	-9.2	-4.7	-3.5
Asset Turnover (x)	0.8	0.6	0.7	0.8	1.0
Leverage Factor (x)	2.3	2.0	1.7	1.7	2.0
RoE (%)	-1.6	-13.4	-10.3	-6.2	-6.8

Source: Company, JM Financial

Key Ratios					
Y/E Mar	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	9.8	12.3	22.2	20.8	19.5
ROIC (%)	4.2	-3.7	-5.8	-1.3	0.9
ROE (%)	-1.6	-13.4	-10.3	-6.2	-6.8
Net Debt/Equity (x)	0.0	0.5	0.0	0.5	0.9
P/E (x)	-	-	-	-	-
P/B (x)	21.6	17.2	9.5	10.2	10.9
EV/EBITDA (x)	116.1	198.3	159.9	91.7	62.5
EV/Sales (x)	14.7	15.7	11.6	7.9	5.9
Debtor days	52	62	78	58	52
Inventory days	134	161	168	140	129
Creditor days	88	99	103	91	96

Source: Company, JM Financial

Recommendation History Table

Date	Recommendation	Target Price	% Chg.
19-Mar-26	Buy	145	

Recommendation History Chart

APPENDIX I

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
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