Sales Note
18th Sep, 2025

Airfloa Rail Technology Ltd

Potential opportunity in Railways, Defence & Aerospace | 3x Play

CMP: INR 140

Rating: BUY

Target Price: INR 483

Stock Info	
BSE -SME	544516
Sector	Capital Goods
Face Value (INR)	10
Equity Capital (INR mn)	240
Mkt Cap (INR mn)	3,356

Shareholding Pattern % *(As on Sep, 2025)*	
Promoters	54.2
Public & Others	45.8

Airfloa Rail Technology Ltd is a key manufacturer of high-precision components and turnkey interior furnishings for Indian Railways' rolling stock, including the ICF, Vande Bharat Express, and Metros. The company also extends its expertise to the aerospace and defence sectors, producing components for projects like AMCA ground simulators and artillery.

Investment Rationale

Strong order book and pipeline show business visibility: The order book stood at INR 4.25bn (~2.2x of FY25 revenue), showing business visibility over the medium term. The company has participated in tenders of INR 14.8bn, with a conversion rate of 20%-25% which would add orders of INR 3-4bn in the near term. The company has a substantial future pipeline of INR 40-50bn in defence tenders; however, the company is actively looking for technology partnerships to pursue opportunities.

Margins are expected to improve through the value-added model: The company is getting railway technology and turnkey project margins of 25%-30%. The company is strategically avoiding railway orders with margins below 23%. Defence margins are around 30%-35% and an increase in revenue share to 40%-45% will improve overall margins to 27%-32% going forward.

Capacity expansion to support business growth: The plant is operating at a capacity utilization of 85% and INR 20-25mn will be used for capacity enhancements. The capex of INR 100mn for setting up a new plant, to be built on 14 acres. The facility will be equipped with specialized machinery like CNC 5-axis machines to enable the manufacturing of entire coach components, eliminating dependency on rented facilities and securing long-term operational efficiency.

Railways' growth backed by ICF, Vande Bharat, and Metros: The company transitioned from manufacturing rolling stock components like doors, windows, and seats to executing complete interior projects and turnkey contracts for entire coach shells and interiors. The growth is driven by high-margin technology products for Indian Railways, including automatic door systems, couplers, AC systems, and security systems, each envisioned as an INR 10bn annual business line going forward. Annual Maintenance Contracts and refurbishment market for India's existing fleet of over 200,000 coaches shows additional growth drivers going forward.

Defence and Aerospace remain strategic growth drivers: The company is focused on high-value indigenization projects and innovation. The company is focused on developing simulators for combat aircraft and helicopters, manufacturing tracks for missile launching pads, and main battle tank bodies. Simulations are a high-volume opportunity with four active simulator programs expected to generate INR 8-9bn going forward. The company is advancing in electronic warfare systems, including a diverse range of drones and anti-drone technologies. Defence revenue share is around ~36% and expected to reach 40%-45% over the medium term.

Prudent capital utilization through efficient working capital and debt management: The company is managing its cash flows by balancing short-cycle component supplies, which have quicker billing and payment terms, with long-cycle turnkey projects. The cash generated from the short-cycle business is used to fund the working capital needs of the larger, more lucrative turnkey contracts, ensuring efficient capital utilization and accelerated project turnaround. The debt stood at INR 600mn, and repayment of INR 60mn will improve the balance sheet.

Outlook & Valuation: **Airfloa Rail Technology has an order book of INR 4.25bn (~2.2x of FY25 revenue) and expected order inflows of INR 3-4bn, showing business visibility over the medium term. Railway business evolving from component supplies to high-value turnkey coach projects and proprietary systems. The defence sector is set to become a major pillar, with its revenue share expected to surge from 36% (FY25) to 45% over the medium term, on the back of indigenization projects like simulators, electronic warfare systems, etc. The expansion of the defence business would improve overall margins to 27%-32% going forward. The company employs a strategic approach to working capital by using cash flows from short-cycle projects to fund larger, lucrative turnkey contracts, ensuring efficient capital utilization for sustained growth. At the CMP of INR 140 per share, we have a "BUY" rating and valued the stock at 15x of its FY27E EPS of INR 32.2 and arrived at a price objective of INR 483, an upside of 244.8%.**

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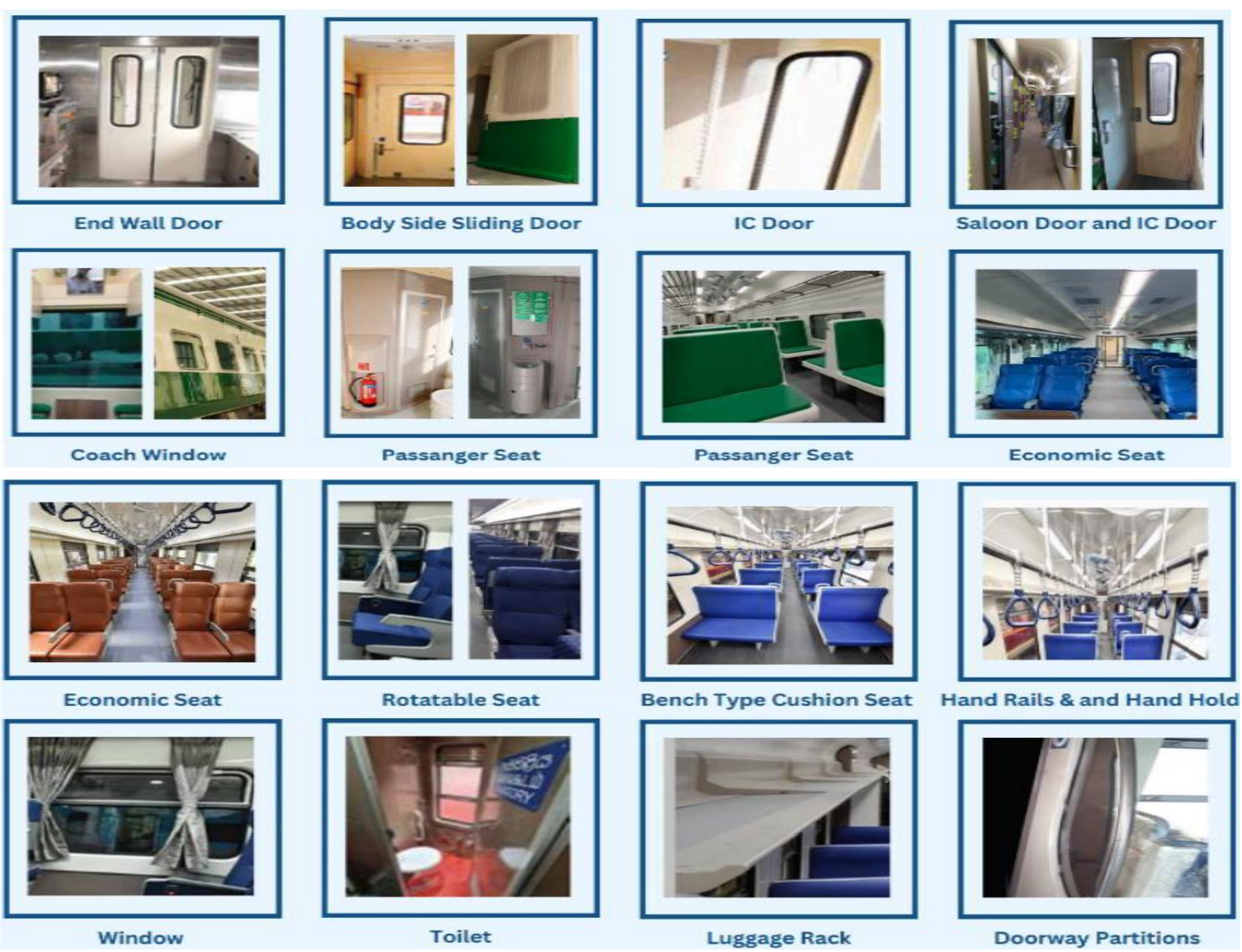
Exhibit 1: Manufacturing facilities

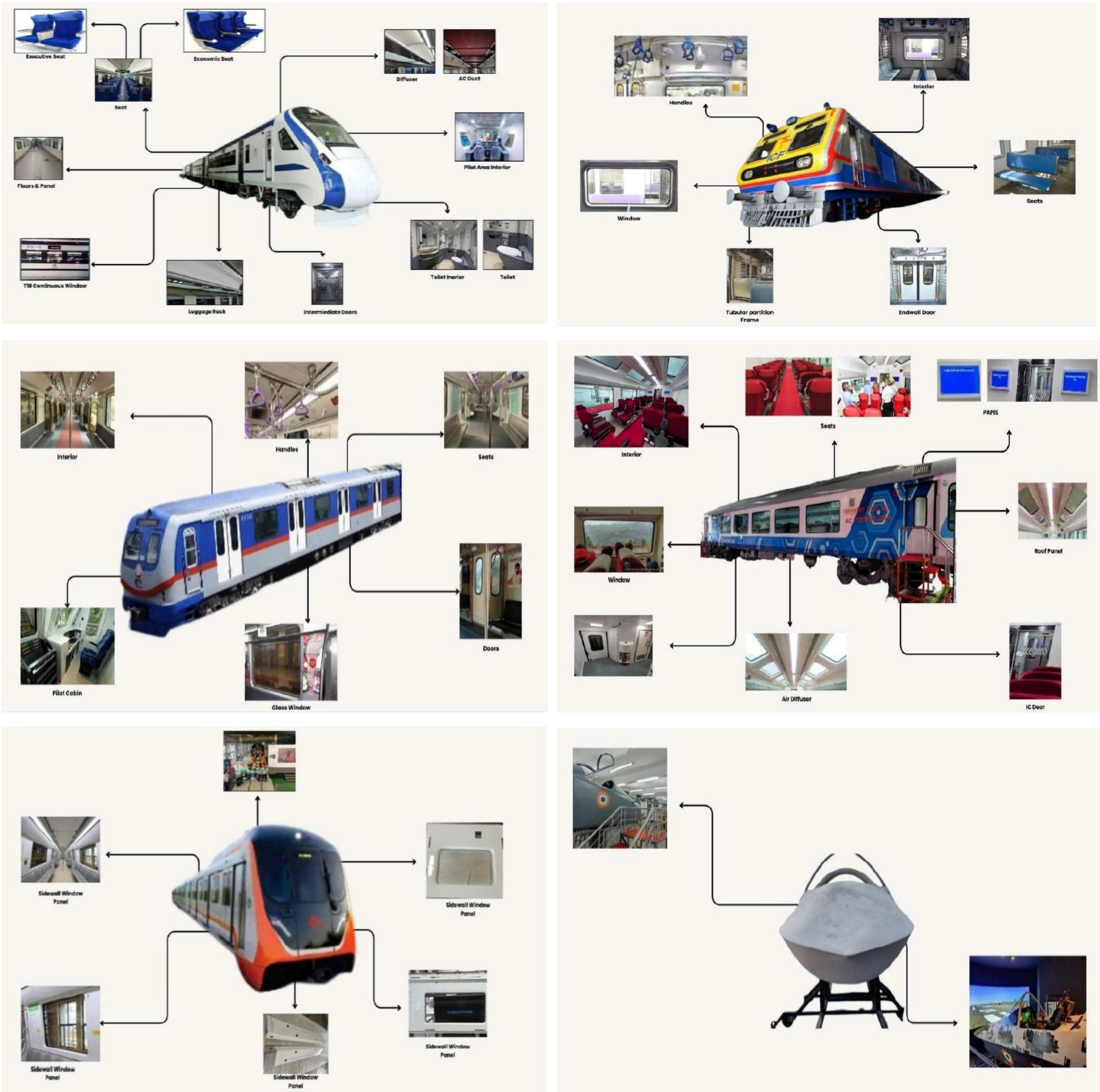
Source: Company reports, Arihant Capital Research

Exhibit 2: Products Portfolio



Source: Company reports, Arihant Capital Research

Exhibit 3: Railway and Defence Products



Source: Company reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
Revenue	952	1,193	1,924	2,808	4,409
Net Raw Materials	625	740	1,247	1,814	2,835
Employee Cost	124	100	125	174	265
Other Expenses	37	35	69	98	152
EBITDA	**165**	**318**	**483**	**722**	**1,157**
EBITDA Margin (%)	**17.4%**	**26.7%**	**25.1%**	**25.7%**	**26.3%**
Depreciation	(31)	(29)	(25)	(32)	(33)
Interest expense	(112)	(118)	(111)	(80)	(73)
Other income	2	36	3	1	1
Profit before tax	**23**	**206**	**350**	**611**	**1,052**
Taxes	(9)	(64)	(93)	(163)	(281)
PAT	**15**	**142**	**256**	**448**	**771**
PAT Margin (%)	**1.6%**	**11.9%**	**13.3%**	**16.0%**	**17.5%**
Net PAT	**15**	**142**	**256**	**448**	**771**
Other Comprehensive income	-	3	-	-	-
Net profit	**15**	**146**	**256**	**448**	**771**
EPS (INR)	3.0	28.5	14.7	18.7	32.2

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
Equity capital	50	50	175	240	240
Reserves	368	510	933	2,227	2,999
Net worth	**417**	**560**	**1,108**	**2,467**	**3,238**
Minority Interest	-	-	6	6	6
Provisions	24	89	137	50	79
Debt	602	638	600	538	511
Other non-current liabilities	2	0	0	3	4
Total Liabilities	**1,045**	**1,287**	**1,851**	**3,064**	**3,838**
Fixed assets	357	336	368	473	480
Other Intangible assets	0	0	0	0	0
Investments	-	-	-	3	4
Other non current assets	33	50	73	98	110
Net working capital	**620**	**884**	**1,371**	**1,637**	**2,415**
Inventories	503	458	624	795	1,204
Sundry debtors	488	1,017	1,276	1,616	2,416
Loans & Advances	222.6	141.8	189.2	266.8	418.9
Sundry creditors	(521)	(598)	(639)	(915)	(1,425)
Other current liabilities & Prov	(73)	(135)	(79)	(126)	(198)
Cash	36	17	39	852	827
Other Financial Assets	-	-	-	1	2
Total Assets	**1,045**	**1,287**	**1,851**	**3,064**	**3,838**

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
Profit before tax	23	206	350	611	1,052
Depreciation	31	29	25	32	33
Tax paid	(9)	(64)	(93)	(163)	(281)
Working capital Δ	(620)	(264)	(488)	(265)	(778)
Operating cashflow	**(574)**	**(92)**	**(206)**	**214**	**26**
Capital expenditure	(388)	(9)	(56)	(137)	(40)
Free cash flow	**(962)**	**(101)**	**(263)**	**77**	**(14)**
Equity raised	403	-	298	911	-
Investments	-	-	-	(3)	(2)
Others	(33)	(17)	(23)	(27)	(13)
Debt financing/disposal	602	36	(38)	(62)	(27)
Other items	26	63	48	(84)	30
Net Δ in cash	**36**	**(19)**	**22**	**813**	**(25)**
Opening Cash Flow	**-**	**36**	**17**	**39**	**852**
Closing Cash Flow	**36**	**17**	**39**	**852**	**827**

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25	FY26E	FY27E
Growth matrix (%)					
Revenue growth		25.4%	61.3%	46.0%	57.0%
Op profit growth		92.3%	51.8%	49.5%	60.4%
Profitability ratios (%)					
OPM	17.4%	26.7%	25.1%	25.7%	26.3%
Net profit margin	1.6%	11.9%	13.3%	16.0%	17.5%
RoCE	1.1%	19.2%	21.5%	20.7%	24.0%
RoNW	0.3%	29.1%	30.7%	25.1%	27.0%
RoA	1.4%	11.1%	13.8%	14.6%	20.1%
Per share ratios (INR)					
EPS	3.0	29.1	14.7	18.7	32.2
Cash EPS	9.3	34.4	16.1	20.0	33.6
Book value per share	83.6	112.1	63.4	102.9	135.1
Valuation ratios (x)					
P/E	46.8	4.8	9.5	7.5	4.4
P/CEPS	15.1	4.1	8.7	7.0	4.2
P/B	1.7	1.2	2.2	1.4	1.0
EV/EBITDA	7.7	4.2	6.2	4.2	2.6
Payout (%)					
Dividend payout	0.0%	0.0%	0.0%	0.0%	0.0%
Tax payout	36.3%	30.9%	26.7%	26.7%	26.7%
Liquidity ratios					
Debtor days	187	230	218	188	167
Inventory days	294	237	158	143	129
Creditor days	242	233	157	136	131
WC Days	239	234	219	195	164
Leverage ratios (x)					
Interest coverage	1.2	2.4	4.1	8.7	15.3
Net debt / equity	1.4	1.1	0.5	-0.1	-0.1
Net debt / op. profit	3.4	2.0	1.2	-0.4	-0.3

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 4: Revenue is expected to grow at a CAGR of 51.4% over the period of FY25-27E, backed by railways and defence & aerospace.

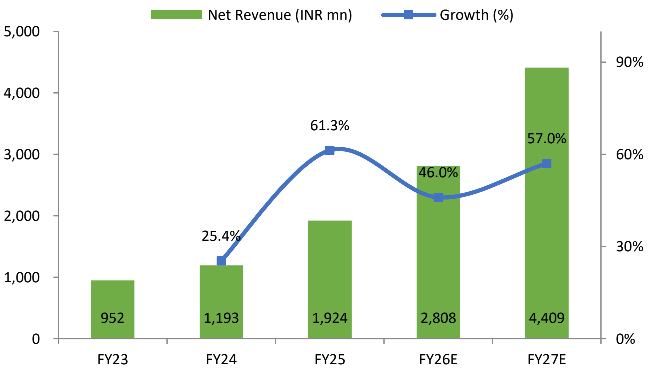


Exhibit 5: Simulation margins are higher in defence. We anticipate, increase in defence business would improve gross margins going forward.

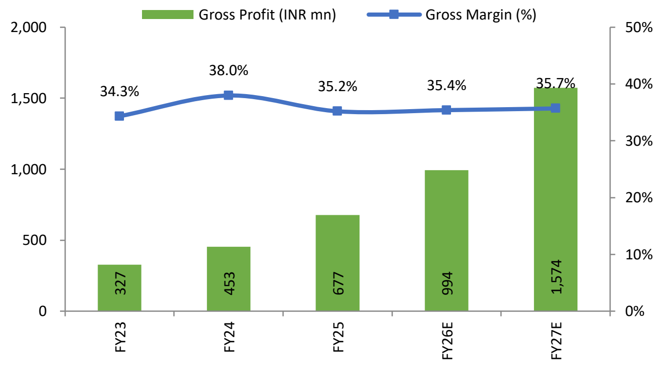


Exhibit 6: Railway margins are ~25%, while defence margins are ~30%-35%. The increase in defence mix would improve overall margins.

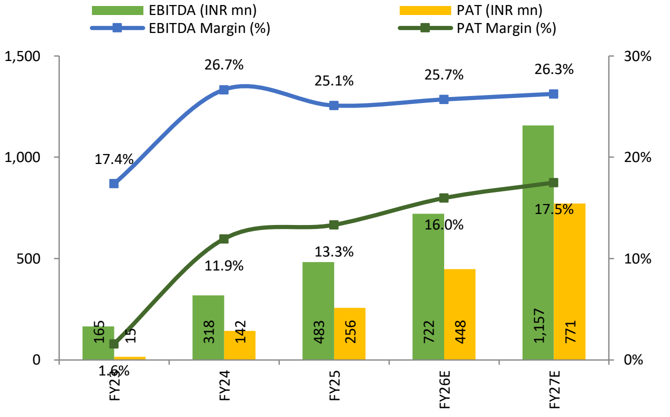


Exhibit 7: Return ratios to be improve

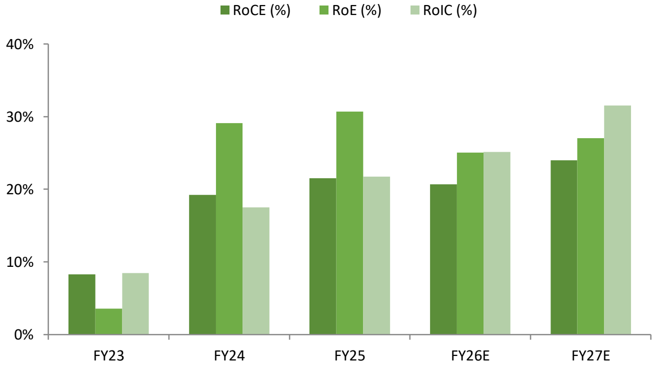


Exhibit 8: Working capital days to be improve.

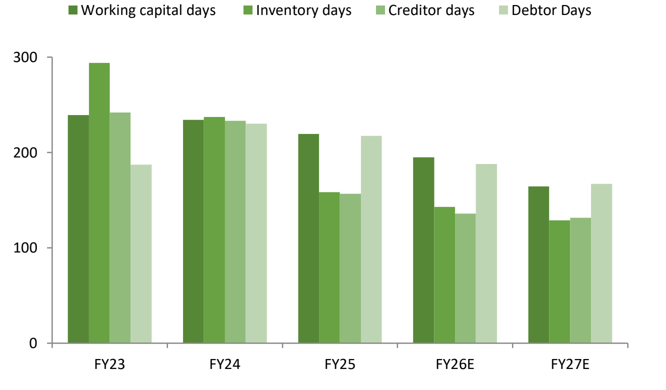
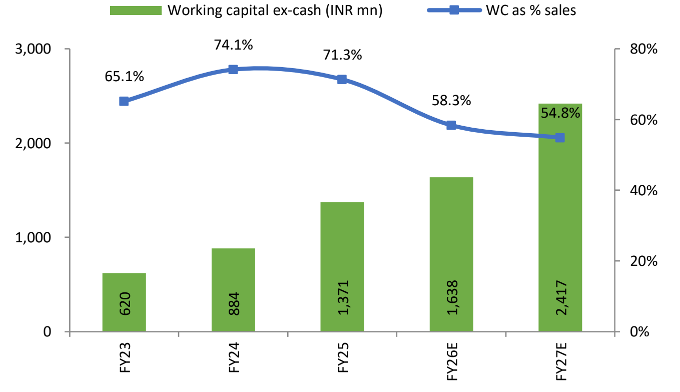


Exhibit 9: Working capital as % of sales is expected to reduce going forward.



Source: Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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