

## Apollo Micro Systems Ltd

Incorporated in 1997, Apollo Micro Systems Limited (AMSL) is a Hyderabad based company engaged in the business of electronic, electro-mechanical, engineering designs, manufacturing and supply. Company designs, develops and sell high performance, mission and time critical solutions to Defense, Space and Home Land Security for Ministry of Defense, government controlled public sector undertakings and private sectors. AMSL's manufacturing facility is located at Hyderabad.

**Huge opportunity in defence sector:** The defence electronics manufacturing sector is expected to create a ₹4 trillion worth market opportunity over FY16-FY26E. The demand for electronics hardware in the country is projected to touch USD 400 billion by 2020, which would create unique opportunities for companies in the ESDM (Electronic System Design & Manufacturing) space. We believe that AMSL is in a good position to tap the growing opportunity from the sector.

**Developing new technological systems and order execution – key strengths:** AMSL started its journey with designing specialized electronic systems and sub-systems. The key strengths of the company are specialized technical skills, strong research and development expertise and a competent management, which has aided AMSL to enhance the ability to design, develop and manufacture complex electronic control systems and associated digital electronics. We believe that the company's expertise and proven track record in implementation of projects provides significant competitive advantages.

**Strong financial track records:** AMSL has delivered strong financial performance over FY2014-17. The company has registered strong numbers both on the top-line and bottom-line fronts CAGR of ~43% and ~52% respectively over FY2014-17, backed by healthy growth in order book and improvement in margin. AMSL witnessed improvement in return ratios from ~19% to 29% over the same period.

**Outlook & Valuation:** In terms of valuations, the pre-issue P/E works out to 29x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to its peers like Astra Microwave (trading at 36.2x its 1HFY2018 annualized earnings). Further, AMSL has strong financial record and return ratios compared to Astra Microwave. Hence, considering the above positive factors, growth in the defence industry we recommend **SUBSCRIBE** on the issue.

### Key Financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
<b>Net Sales</b>	<b>108</b>	<b>159</b>	<b>211</b>	<b>109</b>
% chg	49.2	46.7	32.8	-
<b>Net Profit</b>	<b>7</b>	<b>10</b>	<b>19</b>	<b>7</b>
% chg	39.6	34.4	85.7	-
OPM (%)	16.7	15.9	19.2	17.7
<b>EPS (Rs)</b>	<b>5.0</b>	<b>6.7</b>	<b>12.4</b>	<b>4.7</b>
P/E (x)	55.4	41.3	22.2	-
P/BV (x)	11.9	9.2	6.5	-
RoE (%)	21.4	22.3	29.3	-
RoCE (%)	15.2	19.4	24.3	-
EV/Sales (x)	4.3	3.0	2.3	-
EV/EBITDA (x)	25.8	18.9	12.1	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Please refer to important disclosures at the end of this report

## SUBSCRIBE

Issue Open: Jan 10, 2018

Issue Close: Jan 12, 2018

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹15.0cr

Fresh issue: ₹156cr

Post Eq. Paid up Capital: ₹20.7cr

Issue size (amount): ₹156cr

Price Band: ₹270-275

Lot Size: 50 shares and in multiple thereafter

Post-issue implied mkt. cap: ₹558cr - ₹569cr

Promoters holding Pre-Issue: 88.5%

Promoters holding Post-Issue: 64.2%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	64.2%
Others	35.8%

**Amarjeet S Maurya**

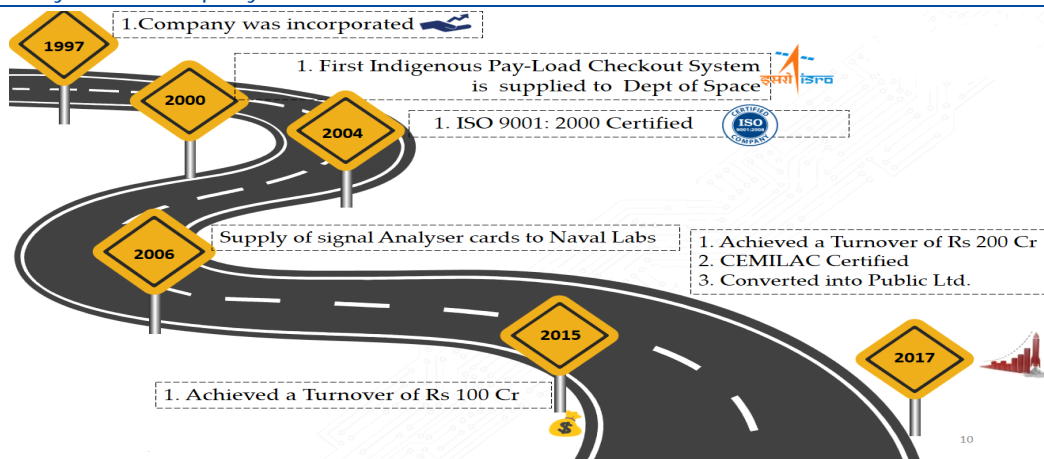
+022 39357600, Extn: 6831

amarjeet.maurya@angelbroking.com

## Company background

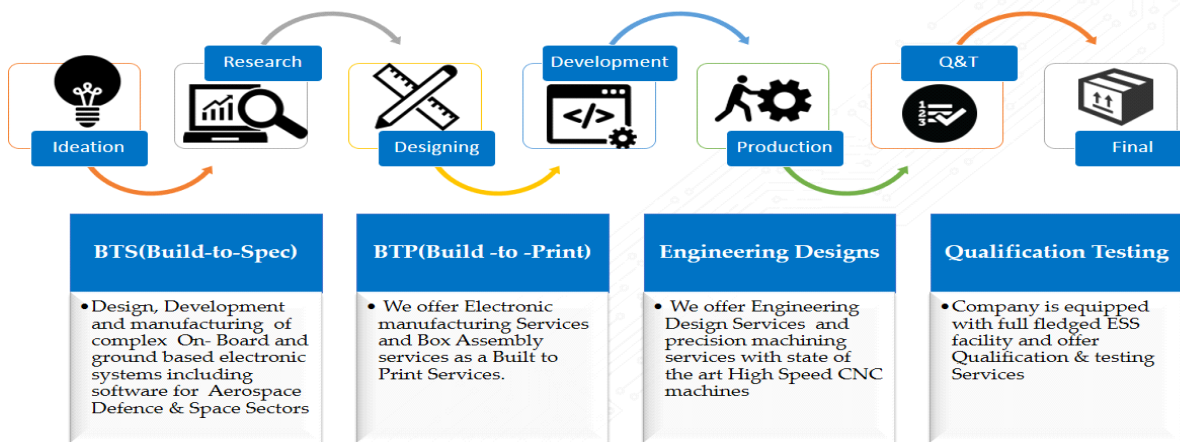
Incorporated in 1997, Apollo Micro Systems Limited is a Hyderabad based company engaged in the business of electronic, electro-mechanical, engineering designs, manufacturing and supply. Company designs, develops and sells high performance mission and time critical solutions to Defense, Space and Home Land Security for Ministry of Defense, government controlled public sector undertakings and private sectors. Apollo Micro Systems offers custom built COTS (Commercially Off-The Shelf) solutions based on specific requirements to defense and space customers. Company has participated in several indigenous missile programs, underwater electronic warfare, underwater missiles, surface to air missiles, nuclear missile programs, surface to surface missile programs, indigenous submarine programs, UAV's long and short endurance ships, space programs. Company's manufacturing facility is located at Hyderabad.

Exhibit 1: Journey of the company



Source: Company, Angel Research

Exhibit 2: AMSL offering



Source: Company, Angel Research

## Issue details

AMSL is raising ₹156cr through fresh issue of equity shares in the price band of ₹270-275. The company will dilute 27.4% (at upper price band) of its post-offer paid-up equity share capital.

### Exhibit 3: Pre and Post IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	13,271,700	88.5%	13,271,700	64.2%
Others	1,728,300	11.5%	7,401,027	35.8%
	15,000,000	100.0%	20,672,727	100.0%

Source: Source: RHP, Note: Calculated on upper price band

**Note:** A discount of ₹12 per equity share is offered to Retail Investors & Employees.

## Objects of the offer

The objects of the Offer for the Company are to:

- Funding working capital requirement
- General corporate purpose

## Outlook & Valuation

In terms of valuations, the pre-issue P/E works out to 29x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to its peers like Astra Microwave (trading at 36.2x ts 1HFY2018 annualized earnings). Further, AMSL has strong financial record and return ratios compared to Astra Microwave. Hence, considering the above positive factors, growth in the defence industry and lower valuations we recommend SUBSCRIBE on the issue.

## Key Risks

- The company's business is significantly dependent on various Public sector and government entities; hence, any change in the policies or spending from government could impact the earning.
- Increase in competition from other players can impact the business of AMSL.

### Income Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
<b>Total operating income</b>	<b>73</b>	<b>108</b>	<b>159</b>	<b>211</b>	<b>109</b>
% chg	94.7	49.2	46.7	32.8	-
<b>Total Expenditure</b>	<b>63</b>	<b>90</b>	<b>134</b>	<b>171</b>	<b>90</b>
Raw Material	54	76	116	151	71
Personnel	3	6	7	6	3
Others Expenses	6	8	11	14	16
<b>EBITDA</b>	<b>10</b>	<b>18</b>	<b>25</b>	<b>41</b>	<b>19</b>
% chg	51.5	78.8	39.4	61.3	-
(% of Net Sales)	13.9	16.7	15.9	19.2	17.7
Depreciation & Amortisation	0	4	3	4	3
<b>EBIT</b>	<b>10</b>	<b>14</b>	<b>22</b>	<b>37</b>	<b>16</b>
% chg	55.3	44.8	58.9	63.3	-
(% of Net Sales)	13.4	13.1	14.1	17.4	14.9
Interest & other Charges	3	5	8	11	6
Other Income	0	0	0	2	0
(% of PBT)	2.9	3.7	3.3	6.7	1.3
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>7</b>	<b>9</b>	<b>15</b>	<b>27</b>	<b>11</b>
% chg	64.5	29.2	58.0	82.7	-
Tax	2	2	5	9	4
(% of PBT)	26.7	20.8	32.6	31.5	33.1
<b>PAT (reported)</b>	<b>5.33</b>	<b>7.44</b>	<b>10.00</b>	<b>18.57</b>	<b>7.11</b>
% chg	80.7	39.6	34.4	85.7	-
(% of Net Sales)	7.3	6.9	6.3	8.8	6.5
<b>Basic EPS (₹)</b>	<b>3.6</b>	<b>5.0</b>	<b>6.7</b>	<b>12.4</b>	<b>4.7</b>
<b>Fully Diluted EPS (₹)</b>	<b>3.6</b>	<b>5.0</b>	<b>6.7</b>	<b>12.4</b>	<b>4.7</b>
% chg	80.7	39.6	34.4	85.7	-

Source: RHP, SH - Share Holder

**Exhibit 4: Balance Sheet**

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	14	14	14	14	14
Reserves & Surplus	14	21	31	50	62
<b>Shareholders Funds</b>	<b>27</b>	<b>35</b>	<b>45</b>	<b>63</b>	<b>76</b>
Total Loans	35	58	71	88	97
Deferred Tax Liability	0	1	4	8	10
<b>Total Liabilities</b>	<b>63</b>	<b>94</b>	<b>120</b>	<b>159</b>	<b>184</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>6</b>	<b>23</b>	<b>21</b>	<b>30</b>	<b>31</b>
Capital Work-in-Progress	12	1	10	13	20
Investments	-	-	-	-	-
Current Assets	67	110	172	203	244
Inventories	23	42	73	114	137
Sundry Debtors	40	61	86	71	89
Cash	2	4	7	9	6
Loans & Advances	2	3	6	9	9
Other Assets	-	-	-	-	3
Current liabilities	22	41	83	87	111
<b>Net Current Assets</b>	<b>45</b>	<b>69</b>	<b>88</b>	<b>116</b>	<b>133</b>
Deferred Tax Asset	-	-	-	-	-
<b>Total Assets</b>	<b>63</b>	<b>94</b>	<b>120</b>	<b>159</b>	<b>184</b>

Source: RHP

**Exhibit 5: Cash Flow Statement**

Y/E March (Rs cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
Profit before tax	7	9	15	26	11
Depreciation	0	4	3	4	3
Change in Working Capital	(15)	(21)	(20)	(27)	(17)
Interest / Dividend (Net)	3	5	8	11	6
Direct taxes paid	(2)	(2)	(2)	(3)	(1)
Others	0	0	0	0	0
<b>Cash Flow from Operations</b>	<b>(7)</b>	<b>(4)</b>	<b>4</b>	<b>12</b>	<b>1</b>
(Inc.)/ Dec. in Fixed Assets	(11)	(10)	(10)	(16)	(15)
(Inc.)/ Dec. in Investments	0	0	0	0	0
<b>Cash Flow from Investing</b>	<b>(11)</b>	<b>(10)</b>	<b>(10)</b>	<b>(16)</b>	<b>(15)</b>
Issue of Equity	0	0	0	0	6
Inc./(Dec.) in loans	20	20	11	14	11
Dividend Paid (Incl. Tax)	0	0	0	0	0
Interest / Dividend (Net)	(2)	(4)	(3)	(9)	(6)
<b>Cash Flow from Financing</b>	<b>18</b>	<b>16</b>	<b>9</b>	<b>6</b>	<b>10</b>
Inc./(Dec.) in Cash	0	1	3	2	(3)
<b>Opening Cash balances</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>7</b>	<b>9</b>
<b>Closing Cash balances</b>	<b>2</b>	<b>4</b>	<b>7</b>	<b>9</b>	<b>6</b>

Source: Company, Angel Research

**Exhibit 6: Key Ratios**

Y/E March	FY2014	FY2015	FY2016	FY2017
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	77.4	55.4	41.3	22.2
P/CEPS	72.6	36.2	32.4	18.3
P/BV	15.0	11.9	9.2	6.5
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	6.1	4.3	3.0	2.3
EV/EBITDA	44.0	25.8	18.9	12.1
EV / Total Assets	7.1	5.0	4.0	3.1
<b>Per Share Data (Rs)</b>				
EPS (Basic)	3.6	5.0	6.7	12.4
EPS (fully diluted)	3.6	5.0	6.7	12.4
Cash EPS	3.8	7.6	8.5	15.0
DPS	0.0	0.0	0.0	0.0
Book Value	18.3	23.2	29.9	42.2
<b>Returns (%)</b>				
ROCE	15.6	15.2	19.4	24.3
Angel ROIC (Pre-tax)	16.2	15.8	20.7	25.8
ROE	19.4	21.4	22.3	29.3
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	8.8	3.7	5.2	4.9
Inventory / Sales (days)	114	143	167	197
Receivables (days)	201	206	198	123
Payables (days)	92	113	164	117
Working capital cycle (ex-cash) (days)	224	237	201	203

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)Website: [www.angelbroking.com](http://www.angelbroking.com)**DISCLAIMER**

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and investment advisor with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.