

30th May 2024

Apollo Micro Systems – BUY

CMP : Rs. 107.0
Target Price : Rs. 129.0
Upside : 20%+
Stop Loss : Rs. 93.0 (Closing basis)

Investment Thesis

- Apollo Micro Systems Ltd. (AMSL) has over 38 years of experience in the design, development and assembly of custom-built electronic and electro-mechanical solutions. It provides a gamut of products and services which includes electronic manufacturing services, PCB fabrication, embedded software design and development, circuit board assembly, hardware design services, concept-to-product development, host interface development and custom-built electronic systems. It designs, develops and sells high-performance, mission and time critical solutions to defense, space and homeland security for public sector and private sector.
- AMSL started by offering design services to ISRO and over the period, expanded into the design and development of systems and subsystems for electronic hardware and software for DRDO, DPSUs, etc. It has emerged as a system-level solution provider with a vision to move into platform-level development and supply. AMSL offers complete platform-level solutions, from development stage to manufacturing, such as underwater mines. Its wide spectrum of technological solutions and end-to-end design, assembly, and testing capabilities give it a competitive edge. The company has built strong domain expertise with a track record of supplying state-of-the-art solutions suitable for the sector. It is also recognized as a collaborative R&D partner by BEL.
- AMSL is currently operating from a 55,000 sqft manufacturing facility located in Hyderabad. It is planning to add two additional facilities of 40,000 sqft and 3,50,000 sqft with a capex of Rs.1,500mn, which is under development and expected to be operational in the next 12 months. The capacity addition will significantly enhance the manufacturing capabilities, supporting increased production and meeting growing demand. The capacity addition will position AMSL to capitalize on emerging opportunities in the defense and electronic manufacturing sectors, driving long-term growth. Also AMSL boasts over 700 on-board technologies and is actively involved in more than 150 indigenous programs and 60 Development cum Production Partner (DcPP) programs as a sub-system partner.

Financials

- AMSL's revenue and PAT grew by CAGR of 22.3% and 44.8%, respectively during FY21-24 led by robust order execution and its focus on innovation through R&D.

Consol. (Rs.Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,432	2,975	3,716	4,385	5,087
EBITDA	455	641	839	1,015	1,197
EBITDA Margin (%)	18.7%	21.5%	22.6%	23.1%	23.5%
PAT	146	188	311	373	433
EPS (Rs.)	0.5	0.7	1.1	1.3	1.5
P/E (x)	206.7	161.2	97.1	80.9	69.8
RoE (%)	4.5%	5.4%	6.0%	6.6%	7.0%

Stock Data

Market Cap (Rs. Mn)	32,150
Market Cap (\$ Mn)	385.1
Shares O/S (in Mn)	282
Avg. Volume (3 month)	9,92,810
52-Week Range (Rs.)	161.70 / 33.30

Shareholding Pattern

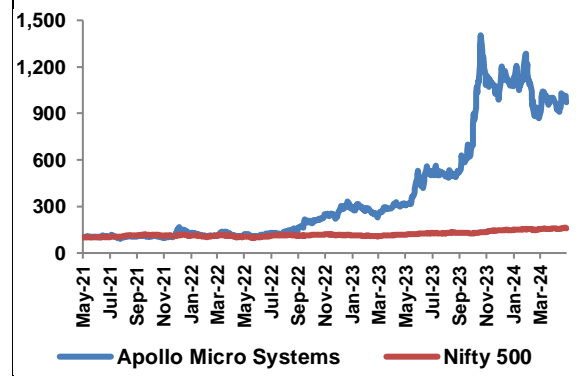
Promoters	55.80%
FII's	10.07%
Institutions	0.01%
Others (incl. body corporate)	34.12%

Key Ratios

Div Yield	0.1%
TTM PE	97.6x
ROE	6.0%
TTM EPS (Rs.)	1.1/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-2.6%	-16.1%	203.0%
NIFTY 500	1.3%	5.8%	34.8%



- AMSL has reported 26.8% YoY growth in revenue to Rs.1,354mn in Q4FY24 as against Rs.1,069mn in Q4FY23 led by robust order execution.
- EBITDA of AMSL grew by 25.6% YoY to Rs.287mn in Q4FY24 attributed to the increased scale of operations and cost efficient execution. However, EBITDA margin remained flat with decline of 19bps YoY at 21.2% in Q4FY24. On the margin front, the management has guided for 22-24% EBITDA margin for FY25.
- AMSL's PAT grew by 79.3% YoY in Q4FY24 to Rs.129mn, compared with Rs.72mn in Q4FY23.

Key Business Highlights

- AMSL has emerged as one of India's leading electronic, electro-mechanical, engineering designs, manufacturing, and supplies company. It specializes in the design, development, and sale of high-performance solutions that are critical for missions and time-sensitive operations.
- AMSL's products are used across multiple industries including Aerospace Systems, Ground Defence, Space, Avionics Systems, Homeland Security, and Transportation.
- AMSL's manufacturing facility is located in Hyderabad and has a built-up area of 55,000 sq.ft. Its manufacturing plant boasts a full-fledged ESS testing facility, and the inspection is in line with DGQA standards.

Valuation

AMSL has engaged in 55-60 programs focusing on missiles, naval torpedoes and underwater mines. Its product range includes Line Replaceable Units (LRUs) for defense systems such as missiles, torpedoes, submarines, bombs, artillery systems, ATGMs, and radar. Some of the programs include AGNI, PINAKA, AKASH-NG, VLSRSAM, VARUNASTRA, TAL, NIRBHAY, ATAGS, MIGM, and others. AMSL has actively involved in the majority of Indigenous missile programs. One such program is MIGM (Underwater Mine), which is an import-banned product that must be delivered by local suppliers to meet Ministry of Defence requirements. AMSL participates in all indigenous initiatives and is the sole provider for more than 60-70% of them.

With strong order execution visibility, capacity expansion, growth opportunities in Defence and key interest of Indian Government to enhance Defence production and capability of domestic market, management has guided for 25% YoY Revenue growth in FY25 with EBITDA margin to be in the range of 22-24% for FY25 led by increasing in scale of operations. Management also expect a healthy growth in the order book from recent orders released to various Defence PSUs and Private Defence Companies. AMSL, through its subsidiary Apollo Defence Industries Pvt. Ltd. is in discussion with few companies for acquiring partial or full stake to increase its capabilities.

With over 38 years of experience in the design, development and assembly of custom-built electronic and electro-mechanical solutions, emerged as a system-level solution provider with a vision to move into platform-level development and supply, plans to add two additional facilities of 40,000 sqft and 3,50,000 sqft and participation in all indigenous initiatives by MoD and the sole provider for more than 60-70% of them, are assigning **BUY** rating to Apollo Micro Systems Ltd. (AMSL) and value at 84.0x FY26E EPS of Rs.1.53 to arrive at target price of Rs.129.00, an upside of ~20.0%+.

Risk & Concern

- AMSL is planning to add two additional facilities at its existing facility located in Hyderabad, any delay in capacity addition plan may impact future growth prospect of AMSL.
- Ministry of Defence has set a target of achieving a turnover of Rs.1.75 Lakh Cr in aerospace and defence manufacturing by 2025, any policy change in defence manufacturing may impact AMSL negatively.

Graphs & Charts

Figure 1: Net Sales Trend

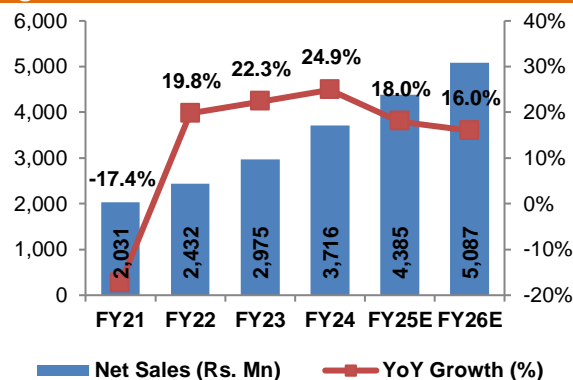


Figure 2: EBITDA & EBITDA Margin Trend

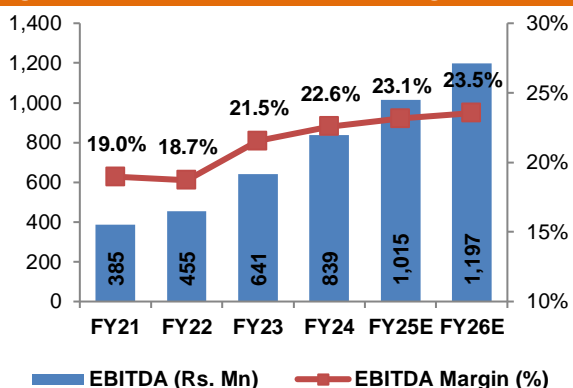


Figure 3: PAT Trend

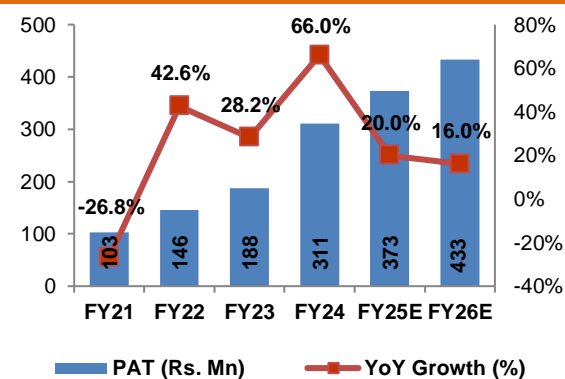
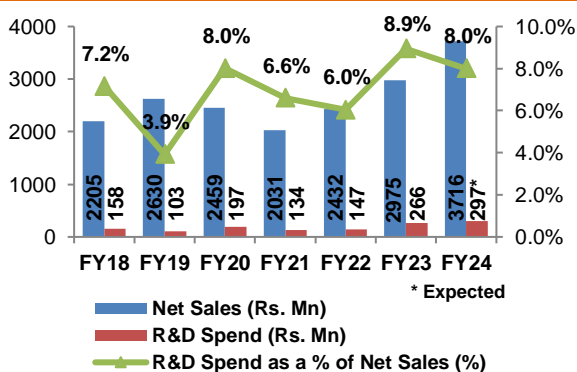


Figure 4: R&D Spend Trend



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