

Q2FY25 Performance Highlights: Revenue for the quarter stands at Rs 1,607mn, jumped by 84.4% YoY (our est. Rs 1,090mn) vs Rs 872mn last year same period. Gross profit increased by 69% YoY to Rs 403mn. Gross margins contracted by 224bps YoY/ 748bps QoQ to 25.1% vs CEBPL est. 28.0%, margins decreased because of supply chain issues. EBITDA increased by 79% YoY to Rs 329mn but margins squeezed by 60bps YoY to 20.5% vs (our est. 20.7%). PAT grew significantly by 139% YoY to Rs 157mn, due to healthy top-line execution. Despite global uncertainty and supply chain instability AMS has delivered a decent set of performance during Q2, we expect the company will manage to achieve 40-50% revenue growth in FY25 as well.

- **New plant, unit-II is expected to commission in next 2-3 months and unit-III bigger plant is expected to start operation in 9-10 months.**
- Recent order won under Make-II category for Anti drone swarm system, the company has got the opportunity to participate in the program which is expected to complete in next 15-18 months, where AMS will provide RADAR/ Electroptical System/RF detector with countermeasures (rocket). The present TAM is in upwards of Rs.8000cr. AMS already have 60% of technology with them and based on their capability management expects to meet the balance technology internally. AMS also participated in the PINKA and ASTRA missile program where it is getting traction for export and domestic market respectively. AMS provides 3-4 components to the program.
- Apollo Micro Systems (AMS) was recently shortlisted by the Defense Research and Development Organization's (DRDO) Armament Research and Development Establishment (ARDE) for the Technology Transfer (ToT) of the PRACHAND anti-tank munition hardware. The PRACHAND system, known for its capability to deliver full-width attacks on armored targets, will be manufactured and supplied by AMS, strengthening India's defense self-reliance initiatives. AMS has also been securing additional major contracts, including from Reliable Technosystems India for electronic modules, Economic Explosives Ltd, and with Bharat Dynamics Limited for torpedo systems. This extensive portfolio underlines AMS's expanding role in India's defense sector, leveraging its expertise in electronics and mechanical systems for strategic defense applications.
- **7X+ capacity expansion on the card:** The company is increasing its facility size from the current 55,000 square feet to 3.9lakh square feet over the next 12-18 months, with a capex of Rs. 150 crores. This investment will be allocated to machinery and testing equipment. The management intends to fund this capex with a 70:30 ratio of debt to equity. Unit-2, spanning 40,000 square feet, is set to be commissioned by this year. Unit-3, which spans 350,000 square feet, will be commissioned in FY26. The management anticipates that 3-4 programs, for which they have received product development approval, will undergo trials in the upcoming season, with the torpedo program having AMS supplying the seeker and accounting for roughly 50% of the total content value.
- **Heading towards platform level development:** AMS is now operating as a solution provider and collaborates with Tier 1 players, DRDO, and other DPSUs from the development stage. Currently, the company is investing in its R&D for system-level development and intends to move into platform-level R&D. Management also has a positive outlook on the defence opportunity as the program upgrade cycle is getting shorter, reducing from 10 years to 3-4 years.
- **View and Valuation:** We have a bullish view on the company led by GOI push for the "Make in India" initiative, will witness a high-growth cycle over the next 5-6 years. In missile technology, India has very low dependency on foreign parts; hence, we expect companies like AMS to benefit from the GoI's local manufacturing initiatives. AMS, which largely provides solutions in the areas of weapons and EW, is poised to grow at a healthy rate in the coming years. We recommend to buy AMS supported by 1) its participation in most of the indigenous weapon programs, 2) commencement of production of these programs following successful trials, 3) capacity expansion to meet the rising demand from defence, 4) shift in the business model from a solution provider to a development-level solution provider, and 5) diversification in defence product (**Anti drone swarm system**). We expect AMS's Revenue/EBITDA/PAT to grow at a CAGR of 40%/41%/51% over FY24-27E. We assign a multiple of **45x** on **FY27E EPS** to arrive at a TP of **Rs.158**, with a **OUTPERFORM** rating.

Quarterly performance

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales (incl OOI)	1,607	872	84.4	912	76.2
Material Exp	1,204	633	90.0	615	95.7
Gross Profit	403	238	69.3	297	35.8
Employee Exp	51	39	30.5	48	6.2
Other Exp	23	15	51.4	25	(7.8)
EBITDA	329	184	79.1	224	47.0
Depreciation	37	27	38.5	35	8.5
EBIT	291	157	86.1	189	54.1
Other Income	6	2	141.9	6	1.6
Interest Cost	73	72	1.3	76	(4.3)
PBT	225	87	157.5	119	88.8
Tax	67	22	210.8	35	94.2
RPAT	157	66	139.8	84	86.6
APAT	157	66	139.8	84	86.6
Adj EPS (Rs)	0.5	0.2	139.8	0.3	86.6

Margin Analysis	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Gross Margin (%)	25.1	27.3	(223.5)	32.6	(747.6)
Employee Exp. % of Sales	3.2	4.5	(131.6)	5.3	(210.2)
Other Op. Exp % of Sales	1.4	1.8	(31.5)	2.8	(131.4)
EBITDA Margin (%)	20.47	21.1	-60.45	24.5	(406.0)
Tax Rate (%)	30.0	24.8	514.6	29.2	82.4
APAT Margin (%)	9.8	7.5	226.3	9.2	54.6

Source: Company, CEBPL

04th Nov, 2024	
CMP (Rs)	102.5
Target Price (Rs)	158.0
Potential Upside (%)	54.2

*CMP as on 01st Nov 2024

Company Info

BB Code	APOLLO:IN EQUITY
ISIN	INE713T01028
Face Value (Rs.)	1.0
52 Week High (Rs.)	161.7
52 Week Low (Rs.)	88.1
Mkt Cap (Rs bn.)	31.4
Mkt Cap (\$ bn.)	0.37
Shares o/s (Mn.)	306.5
Adj. TTM EPS (Rs)	1.26
FY27E EPS (Rs)	3.51

Shareholding Pattern (%)

	Sep-24	June-24	Mar-24
Promoters	55.12	55.12	53.21
FII's	0.19	7.42	11.14
DII's	0.87	0.00	0.01
Public	43.82	37.46	35.62

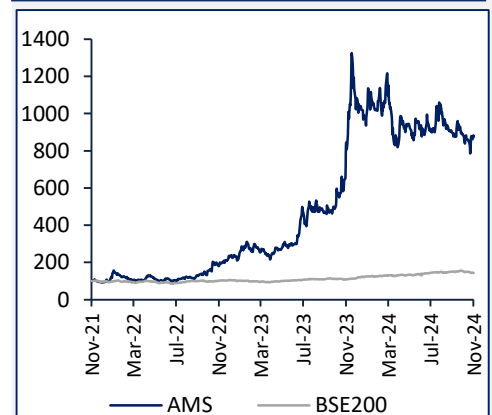
Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 200	44.2	41.2	34.4
AMS	781.7	385.8	4.3

Year end March (INR bn)

Particular	FY25E	FY26E	FY27E
Revenue	5.50	7.70	10.16
Gross Profit	1.61	2.22	2.88
EBITDA	1.22	1.73	2.34
EBITDA (%)	22.2	22.5	23.0
EPS (INR)	1.7	2.6	3.5

Rebased Price Performance



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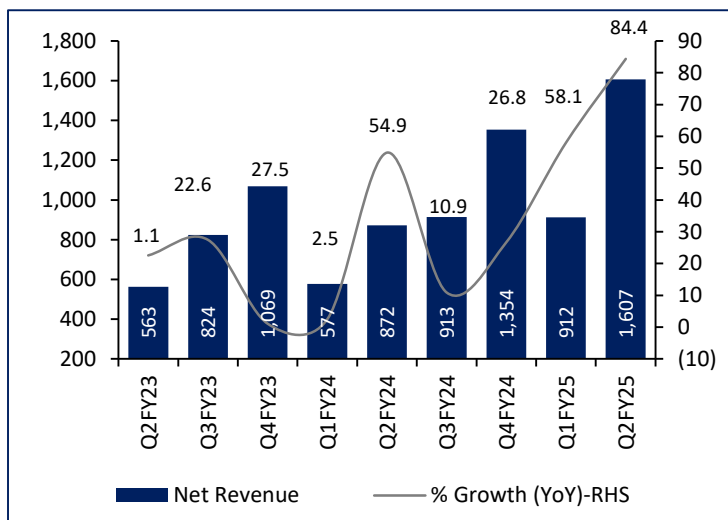
Changes in Estimates

Particulars(Rs. Mn)	Actual	Choice Est.	Deviation(%)
Revenue	1,607	1,090	47.5
EBITDA	329	226	45.9
EBITDA Margins(%)	20%	21%	(23)bps
APAT	157	90	75.6

Income Statement (INR Mn.)	FY25E			FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	5,500	5,389	2.1	7,700	7,275	5.8	10,164	10,164	-
EBITDA	1,222	1,197	2.1	1,731	1,663	4.1	2,339	2,339	-
Margin(%)	22	22	0.6Bps	22	23	-38.8Bps	23.0	23.0	-
APAT	512	544	(5.9)	810	814	(0.5)	1,076	1,076	-
EPS	1.7	1.8	(6.1)	2.6	2.7	(0.7)	3.5	3.5	-

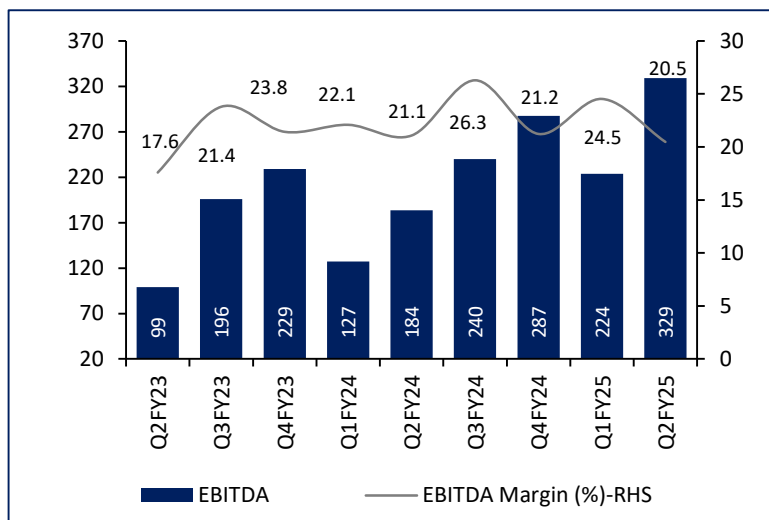
Source: Company, CEBPL

Revenue grew by 84.4% YoY



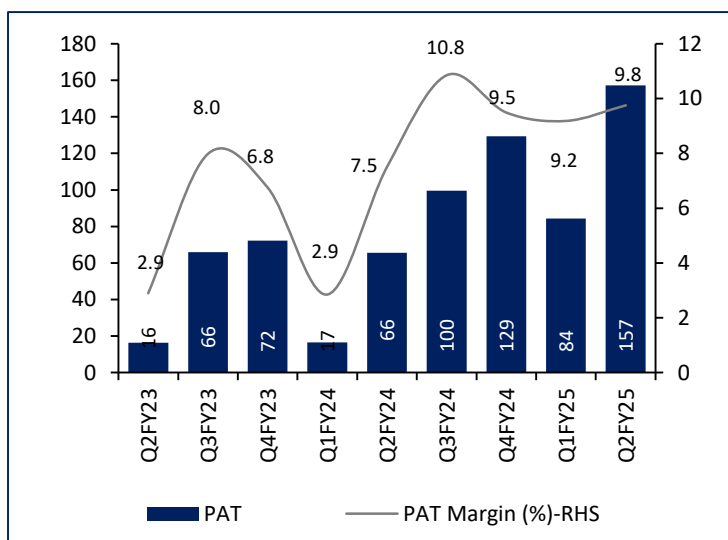
Source: Company, CEBPL

Margins trend



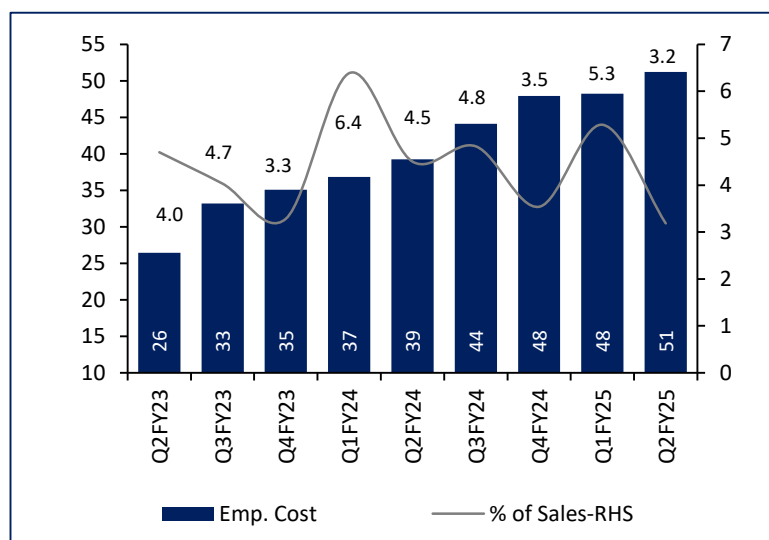
Source: Company, CEBPL

Significant PAT growth ~140% on YoY basis



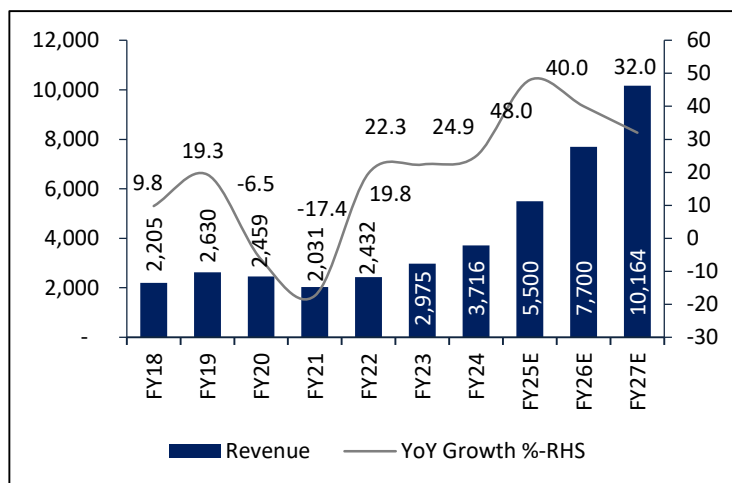
Source: Company, CEBPL

Control in Emp. Cost, would support margins further



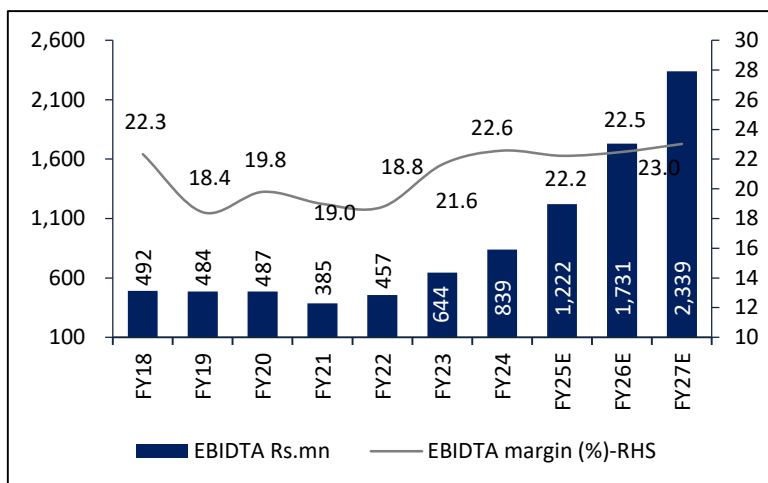
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Significant Revenue to grow over FY23-27E



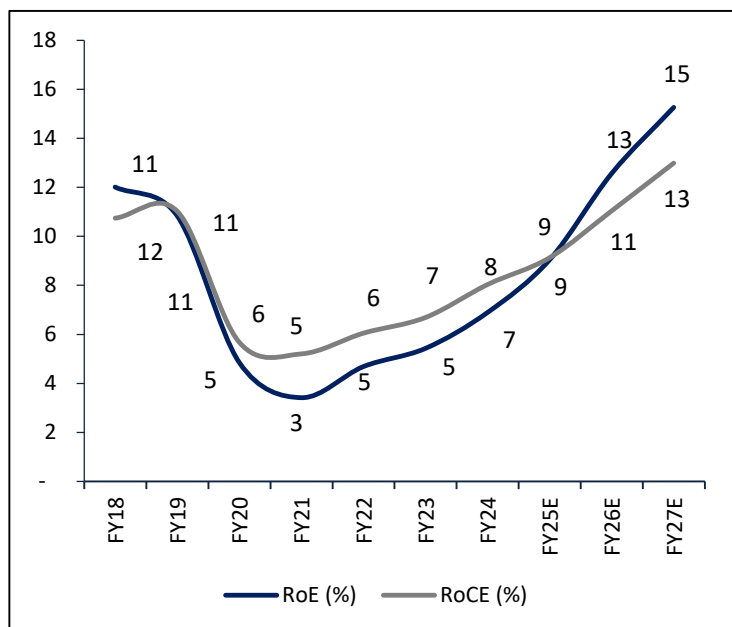
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EBIDTA margin to improve led by better mix



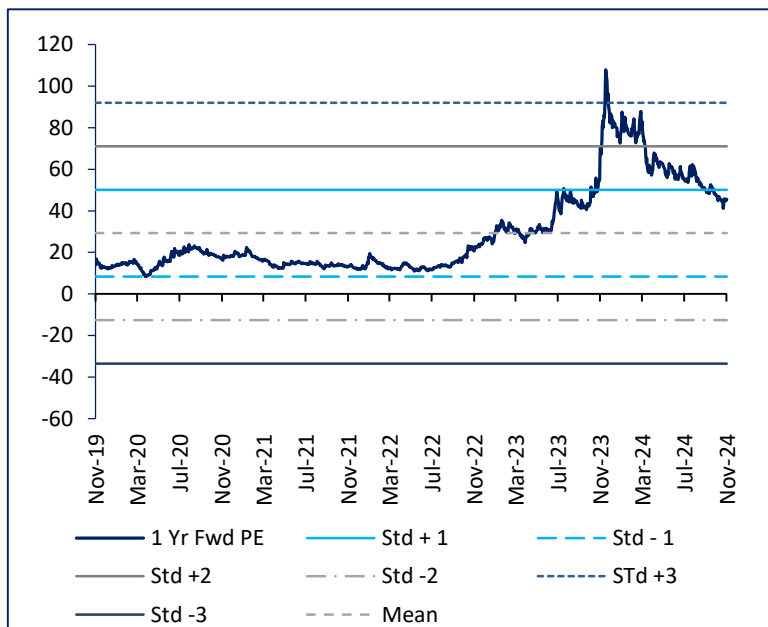
Source: Company, CEBPL

ROE & ROCE Trend



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income statement (Standalone in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,975	3,716	5,500	7,700	10,164
Gross profit	878	1,132	1,608	2,217	2,879
EBITDA	644	839	1,222	1,731	2,339
Depreciation	104	113	209	244	319
EBIT	540	726	1,013	1,487	2,020
Interest expense	226	303	341	399	550
Other Income (Including EO Items)	13	18	20	22	24
Reported PAT	191	311	512	810	1,076
Minority Interest	-	-	-	-	-
Adjusted PAT	191	311	512	810	1,076
EPS (Rs)	0.9	1.0	1.7	2.6	3.5
NOPAT	350	512	749	1,085	1,455

Balance sheet (Standalone in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Net worth	3,838	5,192	6,288	7,098	8,174
Minority Interest	-	-	-	-	-
Deferred tax	265	337	337	337	337
Total debt	1,417	1,982	2,728	3,628	4,228
Other liabilities & provisions	11	21	12	13	14
Total Net Worth & liabilities	5,531	7,532	9,364	11,075	12,753
Net Fixed Assets	1,044	1,407	2,075	2,330	2,511
Capital Work in progress	249	348	151	152	153
Investments	13	-	-	-	-
Cash & bank balance	182	275	222	438	474
Loans & Advances & other assets	85	64	55	77	102
Net Current Assets	4,140	5,713	7,083	8,516	9,987
Total Assets	5,531	7,532	9,364	11,075	12,753
Capital Employed	5,255	7,174	9,016	10,726	12,402
Invested Capital	5,073	6,899	8,794	10,288	11,928
Net Debt	1,235	1,707	2,506	3,191	3,754
FCFF	(449)	(1,263)	(882)	13	404

Source: Company, CEBPL

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	(153)	(687)	(202)	514	905
Capex	(296)	(575)	(679)	(501)	(501)
FCF	(449)	(1,263)	(882)	13	404
CFI	(348)	(614)	(651)	(501)	(501)
CFF	501	1,453	964	501	50
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenue	22.3	24.9	48.0	40.0	32.0
EBITDA	41.0	30.3	45.7	41.6	35.2
PAT	30.4	63.1	64.6	58.2	32.9
Margin ratios (%)					
EBITDA	21.6	22.6	22.2	22.5	23.0
PAT	6.4	8.4	9.3	10.5	10.6
Performance Ratios (%)					
OCF/EBITDA (X)	(0.2)	(0.8)	(0.2)	0.3	0.4
OCF/IC	(3.0)	(10.0)	(2.3)	5.0	7.6
RoE	5.0	6.0	8.1	11.4	13.2
ROCE	10.3	10.1	11.2	13.9	16.3
Turnover Ratios (Days)					
Inventory	419	426	380	320	300
Debtor	180	231	180	170	145
Other Current Assets (days)	58	77	57	45	34
Payables (days)	138	163	140	130	110
Other Current Liab & Provns (days)	33	37	22	22	27
Cash Conversion Cycle	486	534	455	383	342
Financial Stability ratios (x)					
Net debt to Equity	0.3	0.3	0.4	0.4	0.5
Net debt to EBITDA	1.9	2.0	2.1	1.8	1.6
Interest Cover	2.4	2.4	3.0	3.7	3.7
Valuation metrics					
Fully diluted shares (mn)	208	306	306	306	306
Price (Rs)	102.5	102.5	102.5	102.5	102.5
Market Cap(Rs. Mn)	21,279	31,328	31,415	31,415	31,415
PE(x)	112	100.7	61.4	38.8	29.2
EV (Rs.mn)	22,514	33,035	33,922	34,606	35,169
EV/EBITDA (x)	35	39	28	20	15
Book value (Rs/share)	18	17	21	23	27
Price to BV (x)	5.5	6.0	5.0	4.4	3.8
EV/OCF (x)	-147	-48	-168	67	39

Source: Company, CEBPL

Historical recommendations and target price: Apollo Micro Systems Limited



Apollo Micro Systems Limited

1.	30-10-2023	OUTPERFORM,	Target Price Rs.103
2.	16-11-2023	OUTPERFORM,	Target Price Rs.163
2.	22-08-2024	OUTPERFORM,	Target Price Rs.163
3.	01-11-2024	OUTPERFORM,	Target Price Rs.158

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UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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