

Apollo Micro Systems: Q1 margin beat; Strategic depth supports long-term view

Aug 05, 2025 CMP: INR 172 | Target Price: INR 240

Expected Share Price Return: 40.0% | Dividend Yield: 0.0% | Potential Upside: 40.0%

BUY

Sector View: Positive

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✗

Company Info	
BB Code	APOLLO IN EQUITY
Face Value (INR)	1.0
52 W High/Low (INR)	221/88
Mkt Cap (Bn)	INR 52.7 / \$0.60
Shares o/s (Mn)	342.3
3M Avg. Daily Volume	1,27,41,197

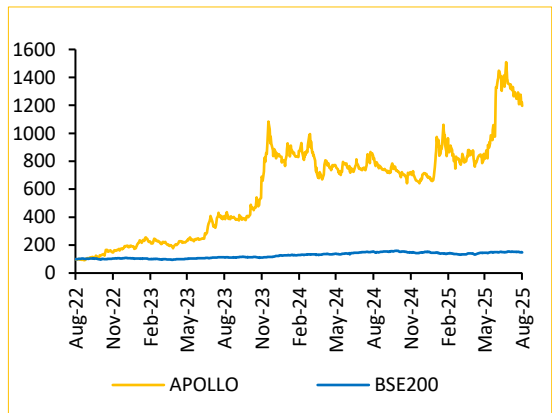
Change in Choice Institutional Equities Estimates						
	FY26E			FY27E		
INR Mn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	8,145	8,145	-	12,218	12,218	-
EBITDA	1,955	1,955	-	2,969	2,993	(0.8)
EBITDAM %	24.0	24.0	-	24.3	24.5	(20.0)
PAT	935	952	(1.8)	1,587	1,651	(3.9)
EPS	2.7	2.8	(2.5)	4.2	4.4	(4.6)

Actual vs Choice Institutional Equities			
INR Mn	Q1FY26	CIE est.	Dev. %
Revenue	1,336	1,548	-13.7
EBITDA	409	395	3.6
EBITDAM %	30.6	25.3	534bps
PAT	177	195	-9.2

Key Financials					
INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Revenue	3,716	5,621	8,145	12,218	17,105
YoY Growth (%)	25	51	45	50	40
EBITDA	839	1292	1955	2969	4191
EBITDAM (%)	22.6	23.0	24.0	24.3	24.5
Adjusted PAT	311	564	935	1587	2398
EPS	1.2	1.9	2.7	4.2	6.3
ROE %	6.9	10.0	8.8	10.0	13.4
ROCE %	13.2	16.2	10.3	14.4	18.0
PE(x)	138	92	63	41	27
Price to BV (x)	9.4	8.7	3.9	3.9	3.4

Shareholding Pattern (%)			
	Jun-25	Mar-25	Dec-24
Promoters	50.65	55.12	55.12
Flls	7.16	0.93	0.74
Dlls	1.61	0.37	0.87
Public	40.59	43.60	43.29

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE 200	48.1	32.6	-2.0
APOLLO	1150.5	198.7	46.9



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Q1 margin beat; Strategic depth supports long-term view

We believe APOLLO has delivered a steady quarter, broadly in line with its guidance and continues to demonstrate operational consistency. What stands out is APOLLO's strong presence across almost all key missile programs under India's defence modernisation drive. We assume this depth of engagement gives the company a long-term strategic edge, especially as many of these programs move from development to production in the next 1–2 years.

We view APOLLO's dual-growth engine, i.e. organic innovation and inorganic expansion, as a solid foundation for scalable growth. The IDL Explosives acquisition and RF capability build-out reflect deeper value chain integration, which we believe can enhance profitability and positioning. Looking ahead, with Unit-3 adding capacity and system-level deliveries ramping up from FY27E, APOLLO is well-placed to capitalise on strong order momentum. Backed by a INR 735 Cr order book, robust pipeline and rising export visibility, we see it as a compelling long-term play on India's defence indigenisation.

Missed on Revenue and PAT, but beat on margin

- Revenue for Q1FY26 up by 46.5% YoY and down by 17.4% QoQ at INR 1,336 Mn (vs CIE Est. INR 1,548 Mn)
- EBITDA for Q1FY26 up by 83.0% YoY and up 13.7% QoQ at INR 409 Mn (vs CIE Est. INR 395 Mn). The EBITDA Margin stood at 30.6%, improved by 612bps YoY (vs CIE Est. of 25.3%)
- PAT for Q1FY26 up by 109.8% YoY and up 26.7% QoQ at INR 177 Mn (vs CIE Est. INR 195 Mn). PAT Margin improved by 400bps YoY, reaching 13.2% (vs CIE Est. 12.6%)

View & valuation: We maintain our BUY rating on APOLLO, backed by its strategic shift from a component supplier to a full-fledged system integrator. The company's expanding role across key defence programs, robust order pipeline and visible margin trajectory reinforce our conviction in its long-term growth story. Based on our average FY27/28E EPS estimates, we arrive at a target price of INR 240, valuing the stock at 45x forward earnings.

Particulars (INR Mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Revenue	1,336	912	46.5	1,618	(17.4)
Material Exp	820	615	33.3	1,131	(27.5)
Gross Profit	516	297	73.7	487	6.0
Employee Exp	57	48	18.9	68	(15.9)
Other Exp	49	25	96.1	59	(15.9)
EBITDA	409	224	83.0	360	13.7
Depreciation	45	35	30.1	41	8.4
EBIT	364	189	92.6	318	14.4
Other Income	9	6	49.5	7	19.4
Interest Cost	120	76	58.1	106	13.7
PBT	253	119	112.6	220	15.0
Tax	76	35	119.3	80	(5.4)
RPAT	177	84	109.8	140	26.7
APAT	177	84	109.8	140	26.7
Adj EPS (Rs)	0.5	0.3	87.4	0.5	12.3
Margin Analysis					
	Q1FY26	Q1FY25	YoY (bps)	Q4FY25	QoQ (bps)
Gross Margin (%)	38.6	32.6	605.2	30.1	854.4
Employee Exp. % of Sales	4.3	5.3	(99.7)	4.2	7.8
Other Op. Exp. % of Sales	3.7	2.8	93.3	3.6	6.9
EBITDA Margin (%)	30.6	24.5	611.6	22.2	839.7
Tax Rate (%)	30.1	29.2	91.8	36.5	(646.4)
APAT Margin (%)	13.2	9.2	399.7	8.6	460.8

Management Call - Highlights

Management Guidance:

- Management guides for 45–50% revenue CAGR over FY26–27 (core business only, excl. acquisitions)

Margins & Working Capital:

- Margin expansion is expected to continue, especially as more systems enter full production, FY26 onwards
- Some moderation in margins anticipated in H2FY26 and FY27 owing to ongoing capex
- Working capital cycle targeted to reduce to under 220 days by FY27, largely driven by inventory efficiency

Order Book & Execution:

- Order book at INR 735 Cr, with strong visibility driven by both, export and domestic, programs
- Multiple programs are in final stages, with management expecting significant order inflows before December 2025
- Active participation in QRSAM, MIGM, Varunastra, ALWT, BrahMos and Pinaka, among other
- Executing India's first deep-sea mine order, developed in-house; DRDO validation completed

Export & Indigenous Systems:

- Received maiden export order worth \$13.37 Mn (~INR 114 Cr) for advanced avionics (civil + military)
- Developing full-fledged products (mines, aerial bombs, ASW rockets, cargo drones), with INR 100 Cr earmarked for R&D this year
- Final drone model for defence application is undergoing internal trials; unveiled prototype at Aero India

Capex and Expansion:

- Unit 2 is scheduled to commence manufacturing operations in Q2 FY26
- Unit 3 will be developed in phases, with Phase 1 expected to begin operations in September CY2025
- Capital expenditure allocated is INR 150 crores for Phase 1 and an additional INR 100 Cr for Phase 2
- Phase 2 of Unit 3 is planned to commence work in Q4FY26

M&A & Backward Integration:

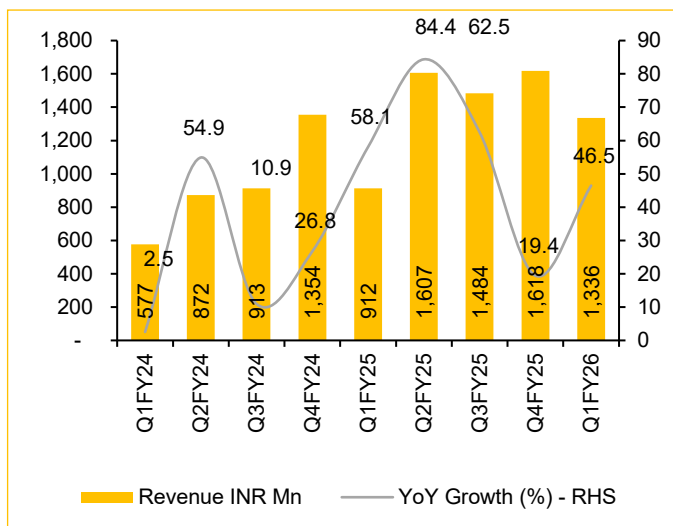
- Acquired IDL Explosives; share transfer to complete soon
- Senior DRDO scientists onboarded to oversee IDL integration and technology absorption
- IDL to enable in-house explosive & warhead manufacturing for products, such as MIGM and aerial bombs

Defence Programs - Deep-Dive:

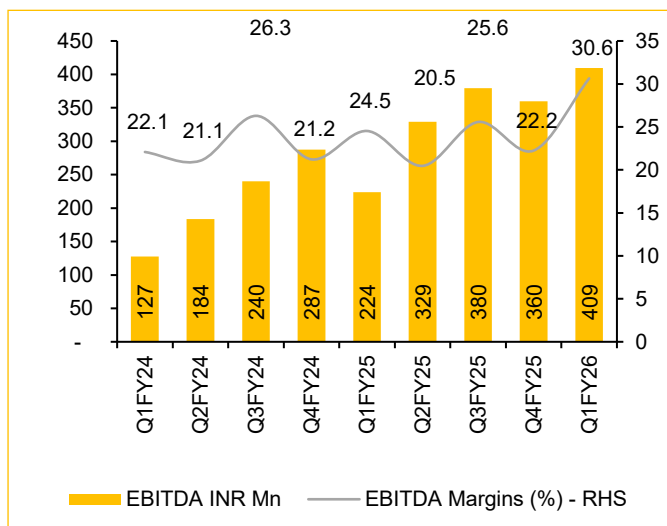
- QRSAM: 4 subsystems developed; orders expected via BEL > BDL > APOLLO flow; likely by December 2025
- MIGM Mines: DRDO handover underway; expected order: ~INR 2,000 Cr, split between APOLLO and BDL
- Varunastra: BDL received 63-unit order; APOLLO to supply key electronics — negotiations ongoing
- ALWT: Supplied complete homing system; production to start after user trials, in 2–3 months
- Pinaka: Supplying guidance electronics to MIL and EEIL; MoD orders and export to Armenia in progress
- BrahMos: Contributing one subsystem at present; scope for expansion as new variants evolve

Strategic Positioning & Industry Tailwinds:

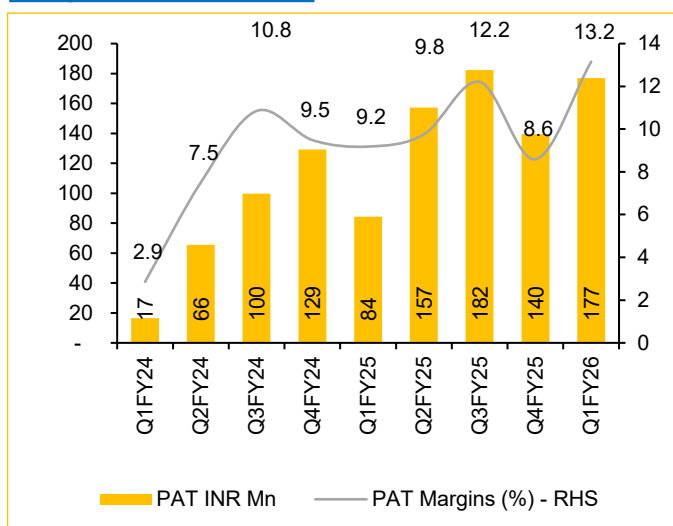
- Participating in ~63% of electronics & electro-mechanical subsystems across all DRDO missile programs
- Management expects FY26 to be a “game-changer year,” driven by large-scale defence production and system-level integrations

Revenue jumped by 46.5% YoY

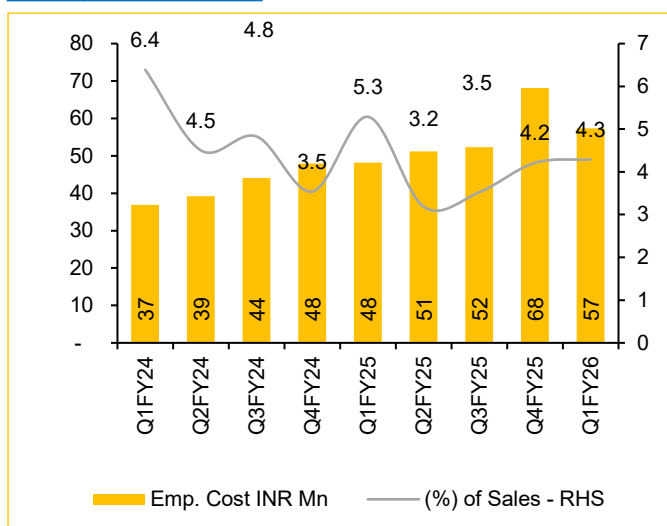
Source: APOLLO, Choice Institutional Equities

EBITDAM improved 612bps YoY

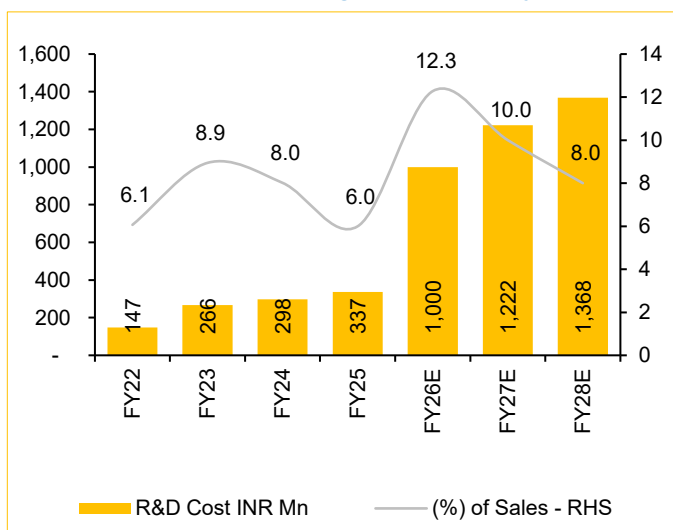
Source: APOLLO, Choice Institutional Equities

PAT growth of 109.8% YoY

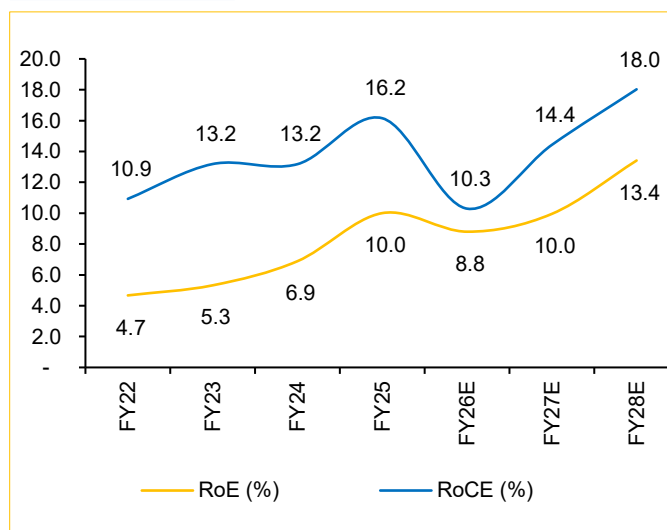
Source: APOLLO, Choice Institutional Equities

Employees' cost trend

Source: APOLLO, Choice Institutional Equities

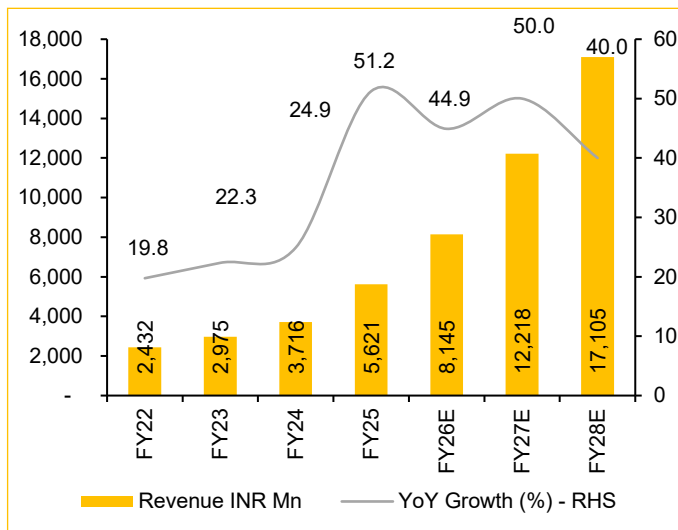
R&D investment to remain high for future projects

Source: APOLLO, Choice Institutional Equities

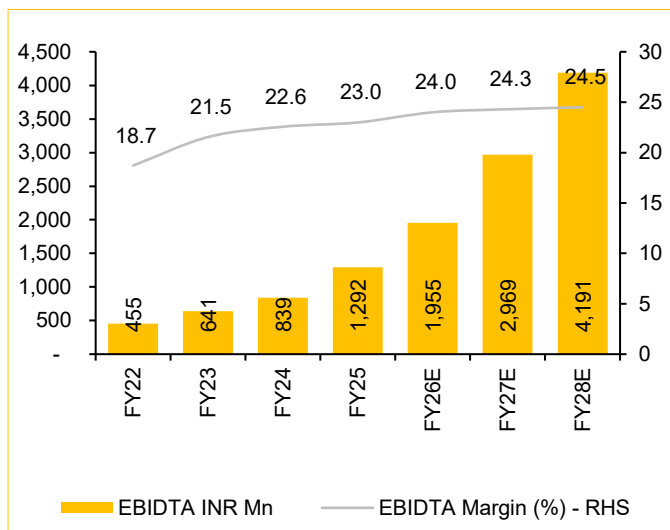
RoE & RoCE trends

Source: APOLLO, Choice Institutional Equities

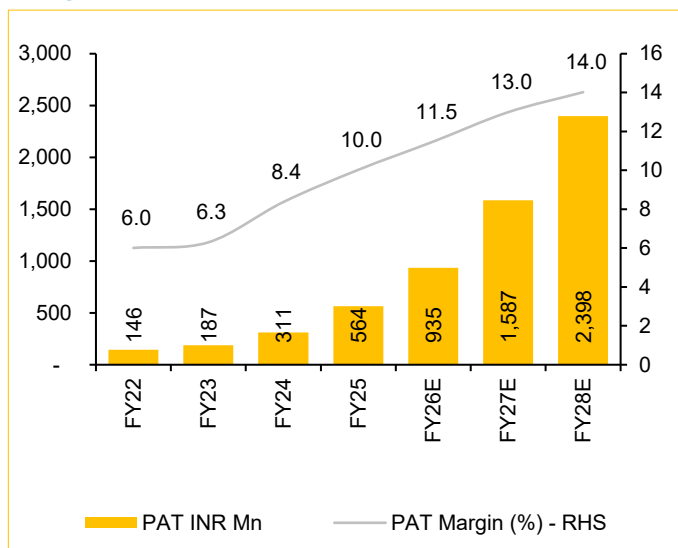
*All figures are in INR Million

Revenue expected to expand ~45.0% CAGR FY25-28E

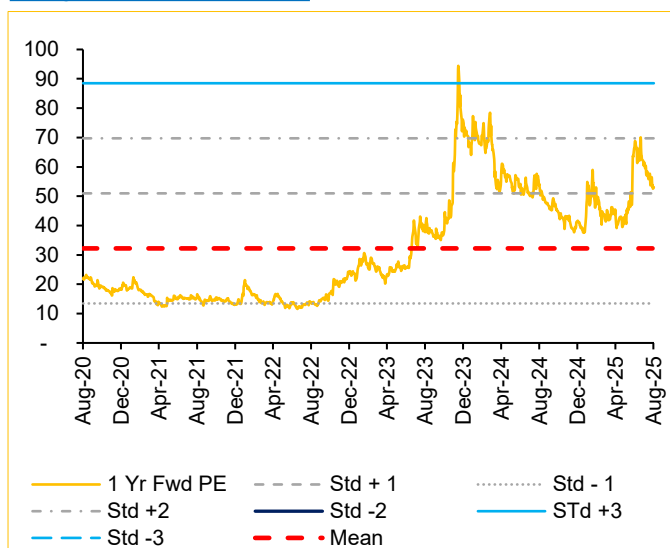
Source: APOLLO, Choice Institutional Equities

EBITDA margin to improve, led by better mix

Source: APOLLO, Choice Institutional Equities

PAT growth to remain robust

Source: APOLLO, Choice Institutional Equities

One year forward PE band

Source: APOLLO, Choice Institutional Equities

Income Statement (Consolidated in INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Revenue	3,716	5,621	8,145	12,218	17,105
Gross Profit	1,132	1,653	2,484	3,763	5,302
EBITDA	839	1,292	1,955	2,969	4,191
Depreciation	113	153	299	329	384
EBIT	744	1,168	1,705	2,677	3,841
Interest Expense	303	342	369	409	415
Other Income	18	29	49	37	34
PBT	441	825	1,335	2,268	3,426
Reported PAT	311	564	935	1,587	2,398
EPS	1.2	1.9	2.7	4.2	6.3

Source: APOLLO, Choice Institutional Equities

Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratios					
Revenue (%)	24.9	51.2	44.9	50.0	40.0
EBITDA (%)	30.9	54.1	51.3	51.9	41.2
PAT (%)	66.0	81.2	65.9	69.8	51.1
Margin Ratios					
Gross Margin	30.5	29.4	30.5	30.8	31.0
EBITDA Margins (%)	22.6	23.0	24.0	24.3	24.5
PAT Margins (%)	8.4	10.0	11.5	13.0	14.0
Performance Ratios					
ROE (%)	6.9	10.0	8.8	10.0	13.4
ROCE (%)	13.2	16.2	10.3	14.4	18.0
Turnover Ratio (Days)					
Inventory	426	390	360	300	280
Debtors	231	155	150	140	120
Payables	163	180	180	160	150
Cash Conversion Cycle (Days)	494	365	330	280	250
Leverage Ratios (x)					
Debt D/E	0.4	0.5	0.2	0.2	0.2
Net Debt/Equity	0.4	0.4	(0.1)	(0.0)	0.1
Net Debt/EBITDA	2.2	2.1	(1.1)	(0.1)	0.3
Interest Coverage	2.5	3.4	4.6	6.5	9.3
Current Ratio	2.0	1.8	2.5	2.3	2.1
Valuation Metrics					
Fully Diluted Shares (Mn)	250.1	306.5	342.3	378.1	378.1
Price (INR)	172.0	172.0	172.0	172.0	172.0
Market Cap (INR Bn)	50.6	55.8	62.0	65.0	65.0
PE (x)	138.3	92.5	63.0	41.0	27.1
EV (INR Bn)	52.5	58.5	59.9	64.7	66.3
EV/EBITDA (x)	62.6	45.3	30.6	21.8	15.8
Book Value (INR/Share)	18.4	19.8	44.3	44.2	50.3
Price to BV (x)	9.4	8.7	3.9	3.9	3.4
EV/OCF (x)	9.3	8.1	3.6	3.5	3.1

Source: APOLLO, Choice Institutional Equities

Balance Sheet (Consolidated in INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Net Worth	5,185	6,069	15,163	16,723	19,025
Minority Interest	7	7	7	7	7
Total Debt	2,063	3,308	3,358	3,408	3,458
Other Non-current Liabilities	358	451	692	1,124	1,574
Trade Payables	1,657	2,772	4,017	5,356	7,029
Other Current Liabilities	292	389	652	1,283	1,796
Total Net Worth & Liabilities	9,562	12,995	23,888	27,899	32,888
Net Fixed Assets	1,425	1,723	3,924	4,595	5,211
Capital Work in Progress	348	723	977	1,466	2,053
Other Non-Current Assets	49	257	407	684	958
Inventories	4,336	6,006	8,033	10,042	13,121
Trade Receivable	2,353	2,383	3,347	4,686	5,623
Cash and Cash Equivalents	2	403	5,097	3,225	1,441
Bank Balances	205	222	342	538	753
Other Currents Assets	844	1,278	1,759	2,663	3,729
Total Assets	9,562	12,995	23,888	27,899	32,888
Capital Employed	5,646	7,228	16,563	18,555	21,306
Net Debt	1,855	2,683	(2,082)	(355)	1,264

Source: APOLLO, Choice Institutional Equities

Cash Flow Statement (Consolidated in INR Mn)

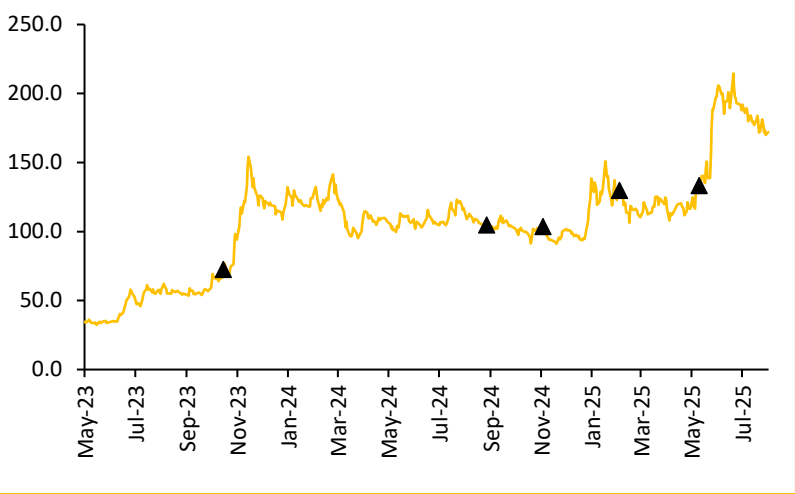
Particulars	FY24	FY25	FY26E	FY27E	FY28E
Cash Flows From Operations	(785)	113	(481)	(151)	87
Cash Flows From Investing	(589)	(952)	(2,905)	(1,766)	(1,860)
Cash Flows From Financing	1,373	1,240	8,081	45	(11)

Source: APOLLO, Choice Institutional Equities

DuPont Analysis	FY24	FY25	FY26E	FY27E	FY28E
Tax Burden	70.5%	68.3%	70.0%	70.0%	70.0%
Interest Burden	59.3%	70.7%	78.3%	84.7%	89.2%
EBIT Margin	20.0%	20.8%	20.9%	21.9%	22.5%
Asset Turnover	0.4	0.4	0.3	0.4	0.5
Equity Multiplier	2.1	2.3	2.2	1.7	1.8
ROE	6.9%	10.0%	8.8%	10.0%	13.4%

Source: APOLLO, Choice Institutional Equities

Historical Price Chart: Apollo Micro Systems Ltd. (APOLLO)



Date	Rating	Target Price
Nov 16, 2023	BUY	163
Aug 22, 2024	BUY	146
Nov 04, 2024	BUY	158
Feb 10, 2025	BUY	156
May 27, 2025	BUY	200
Aug 05, 2025	BUY	240

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in statis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000Cr Market Cap
*Mid & Small Cap: Less Than INR 20,000Cr Market Cap

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