

Net revenue came at Rs.872mn (+54.9% YoY/+51.1% QoQ) led by execution of various program under the localization initiative mostly related to missiles. Gross profit increased by 62.3% YoY, led by controlled raw material prices and EBITDA grew by 85.5% YoY to Rs.186mn with a margin of 21.3% (+349bps YoY/+101bps QoQ) led by execution of high margins program such as TAL, VARUNA STRA, EHWT. Higher RM cost was partially offset by Oplev and other cost control measure. PAT grew by 300.6% YoY to Rs.66mn due to flat depreciation and low tax rate during the quarter. Despite global uncertainty and supply chain instability AMS has delivered decent set of performance during Q2, we expect company will manage to achieve the growth guidance in FY24.

**Missiles dedicated product portfolio: AMS has participated in 55-60 programs, catering to Missiles, Naval Torpedoes and Underwater Mines. With strong order execution visibility and capacity expansion, management expects to increase revenue to grow by 35-40% over FY24-25.** The company's product portfolio serves the Line Replaceable Units (LRUs) of defense systems in the fields of Missiles, **Torpedoes, Submarines, Bombs, Artillery Systems, ATGMs, and Radar. Some of the programs include AGNI, PINAKA, AKASH-NG, VLSRSAM, VARUNA STRA, TAL, NIRBHAY, ATAGS, MIGM,** and more. AMS has actively participated in most of the Indigenous missile programs. One such program is MIGM (Underwater Mine), which is an import-banned product, and the Ministry of Defense's requirement must be fulfilled through local vendors. AMS is involved in all indigenous programs.

**5X+ capacity expansion to carter future demand:** The company is looking to increase its facility size from the current 55,000 square feet to 3.3 lakh square feet over the next 12 months, with a capex of Rs.150 crore. 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 50,000 square feet, is set to be commissioned by December-January. Unit-3, which spans 240,000 square feet, will be commissioned in H1FY25. 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.

**View and valuation:** We are confident about the growth story of the Apollo Micro Systems, due to its position (involvement in various strategic missiles from MoD and BDL) and faces very less competition. We have a positive outlook on AMSL, supported by, 1) Sole supplier of underwater mines, 2) Favourable Government policies on self reliance on defence sector, 3) Rising defence spending across all segment (Naval, Army, Air Force), 4) Massive upcoming big ticket projects, 5) The company's healthy order pipeline, would support the the growth story of the company. We expect AMS Revenue /EBITDA/PAT to grow at 41/44/74% over FY23-26. We value the stock based on **50x of FY26E EPS** (with PEG ratio 0.7x during same period) to arrive at the TP of **163** with **"OUTPERFORM"** rating.

### Quarterly performance

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
<b>Net Sales (incl OOI)</b>	<b>872</b>	<b>563</b>	<b>54.9</b>	<b>577</b>	<b>51.1</b>
Material Exp	633	416	52.3	392	61.7
Gross Profit	238	147	62.3	185	28.7
Employee Exp	39	26	48.3	37	6.5
Other Exp	15	21	(28.4)	21	(26.5)
<b>EBITDA</b>	<b>184</b>	<b>99</b>	<b>85.7</b>	<b>127</b>	<b>44.2</b>
Depreciation	27	25	7.6	26	3.8
<b>EBIT</b>	<b>157</b>	<b>74</b>	<b>112.3</b>	<b>101</b>	<b>54.6</b>
Other Income	2	1	71.4	2	10.1
Interest Cost	72	40	81.5	75	(4.6)
<b>PBT</b>	<b>87</b>	<b>36</b>	<b>145.0</b>	<b>28</b>	<b>208.2</b>
Tax	22	19	12.6	12	84.0
<b>RPAT</b>	<b>66</b>	<b>16</b>	<b>300.6</b>	<b>17</b>	<b>296.6</b>
<b>APAT</b>	<b>66</b>	<b>16</b>	<b>300.6</b>	<b>17</b>	<b>296.6</b>
Adj EPS (Rs)	<b>0.3</b>	<b>0.1</b>	<b>262.5</b>	<b>0.8</b>	<b>(63.3)</b>

Margin Analysis	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	QoQ (bps)
<b>Gross Margin (%)</b>	<b>27.3</b>	<b>26.1</b>	<b>124.7</b>	<b>32.1</b>	<b>(475.5)</b>
Employee Exp. % of Sales	4.5	4.7	(20.0)	6.4	(188.7)
Other Op. Exp % of Sales	1.8	3.8	(204.7)	3.6	(185.5)
<b>EBITDA Margin (%)</b>	<b>21.1</b>	<b>17.6</b>	<b>349.3</b>	<b>22.1</b>	<b>(101.3)</b>
Tax Rate (%)	25%	54%	(29.2)	42%	(16.8)
<b>APAT Margin (%)</b>	<b>7.5</b>	<b>2.9</b>	<b>461.5</b>	<b>2.9</b>	<b>465.8</b>

Source: Company, CEBPL

Nov 16, 2023	
<b>CMP (Rs)</b>	<b>133.3</b>
<b>Target Price (Rs)</b>	<b>163</b>
<b>Potential Upside (%)</b>	<b>22.2</b>
<b>Company Info</b>	
BB Code	APOLLO:IN EQUITY
ISIN	INE713T01028
Face Value (Rs.)	1.0
52 Week High (Rs.)	133.3
52 Week Low (Rs.)	22.24
Mkt Cap (Rs bn.)	34.9
Mkt Cap (\$ bn.)	0.42
Shares o/s (Mn.)	232.9
Adj. TTM EPS (Rs)	0.83
FY26E EPS (Rs)	3.3

### Shareholding Pattern (%)

	Sep-23	June-23	Mar-22
Promoters	52.67	59.10	59.10
FII's	5.27	0.17	0.12
DII's	3.31	3.64	3.59
Public	38.76	37.10	37.19

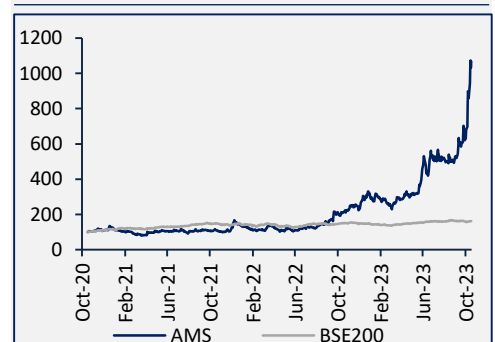
### Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 200	62.0	9.2	8.9
AMS	967.6	831.3	406.5

### Year end March (INR bn)

Particular	FY24E	FY25E	FY26E
Revenue	4.40	6.38	8.30
Gross Profit	1.35	1.84	2.39
EBITDA	1.01	1.42	1.90
EBITDA (%)	22.8	22.3	22.9
EPS (INR)	1.6	2.4	3.3

### Rebased Price Performance



### Kripashankar Maurya, AVP

kripashankar.maurya@choiceindia.com  
Ph: +91 22 6707 9949

### Putta Ravi Kumar, Associate

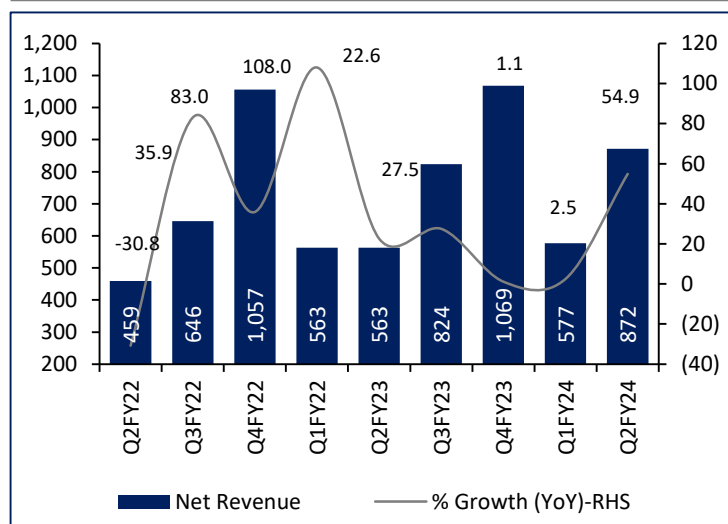
Email: ravi.putta@choiceindia.com  
Ph: +91 22 6707 9908

## Changes in Estimates

Income Statement (INR Mn.)	FY24E			FY25E			FY26E		
	New	Old	Dev. (%)	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	4403	4165	5.7	6385	6040	5.7	8300	7852	5.7
EBITDA	1002	947	5.8	1425	1347	5.8	1904	1801	5.7
Margin(%)	22.8	22.7	10bps	22.3	22.3	0bps	22.9	22.9	0bps
APAT	476	435	9.4	724	666	8.7	999	898	11.2
EPS	1.6	1.4	14.3	2.4	2.2	9.1	3.3	2.9	13.8

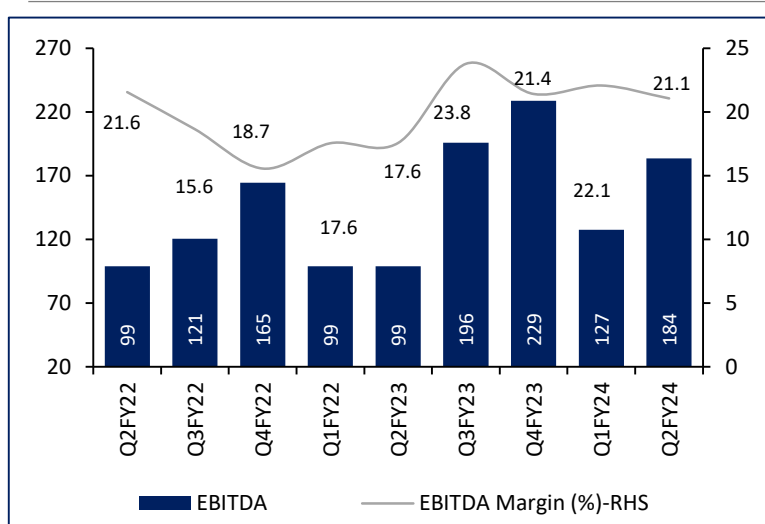
Source: Company, CEBPL

Revenue grew by 54.9% YoY



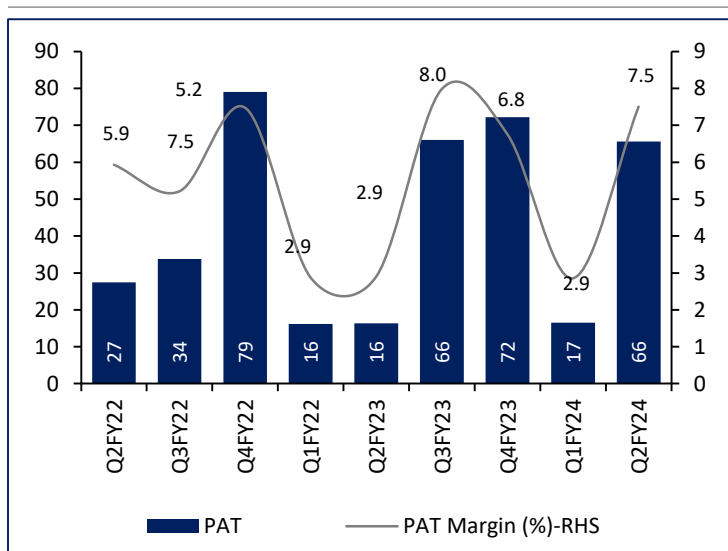
Source: Company, CEBPL

Margin improved 349bps sequentially



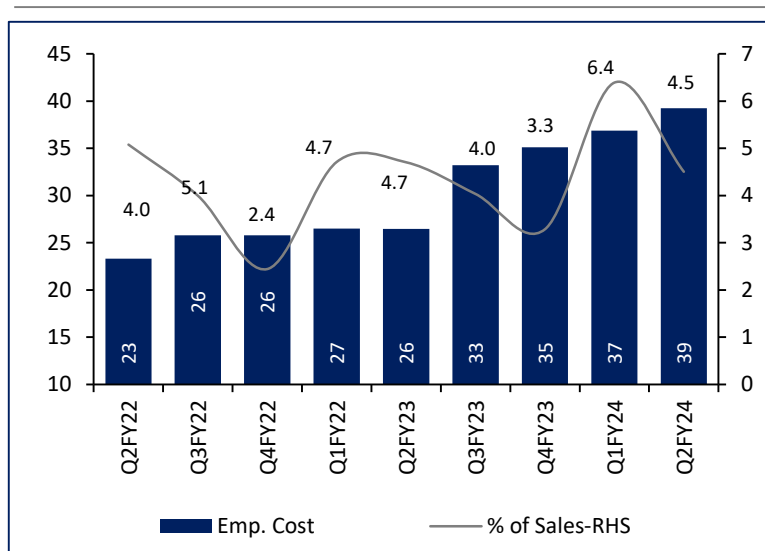
Source: Company, CEBPL

Massive PAT growth 300.6% on YoY basis



Source: Company, CEBPL

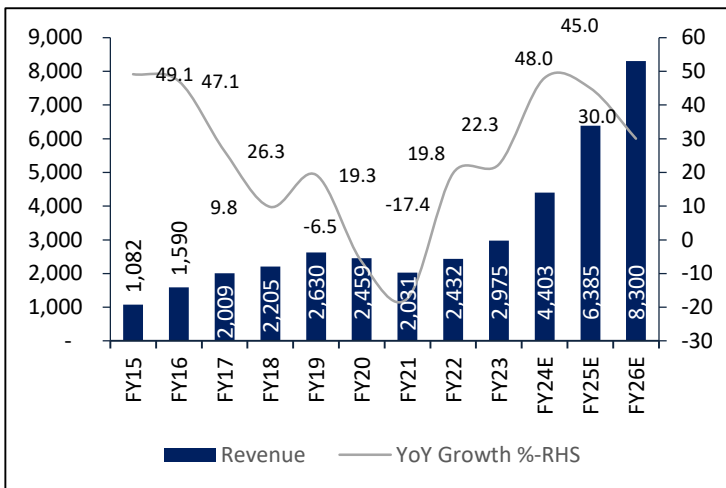
Reduction in Emp. Cost would support margins further



Source: Company, CEBPL

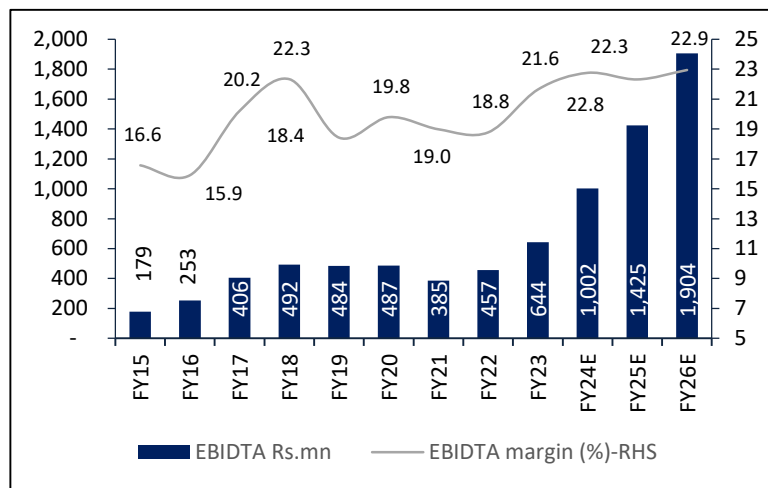
Source: Company, CMIE, CEBPL

Significant Revenue to grow over FY23-26E



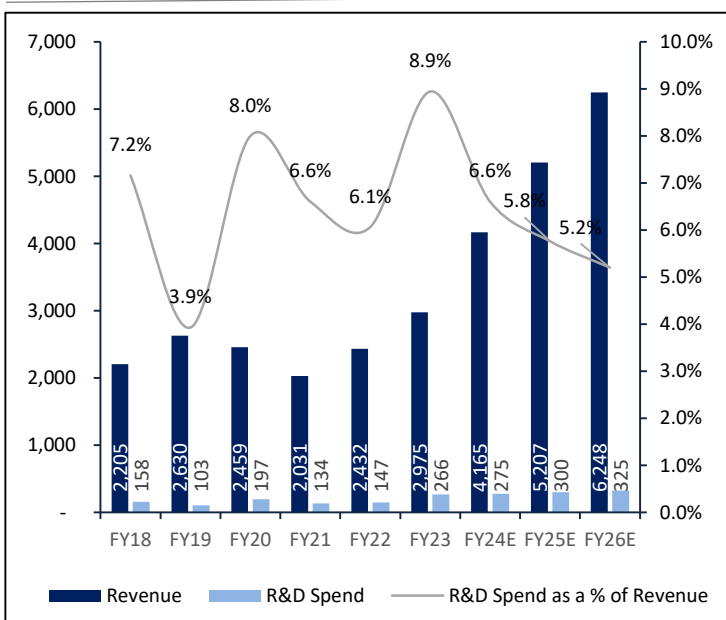
Source: Company, CEBPL

EBIDTA margin to improve led by better mix



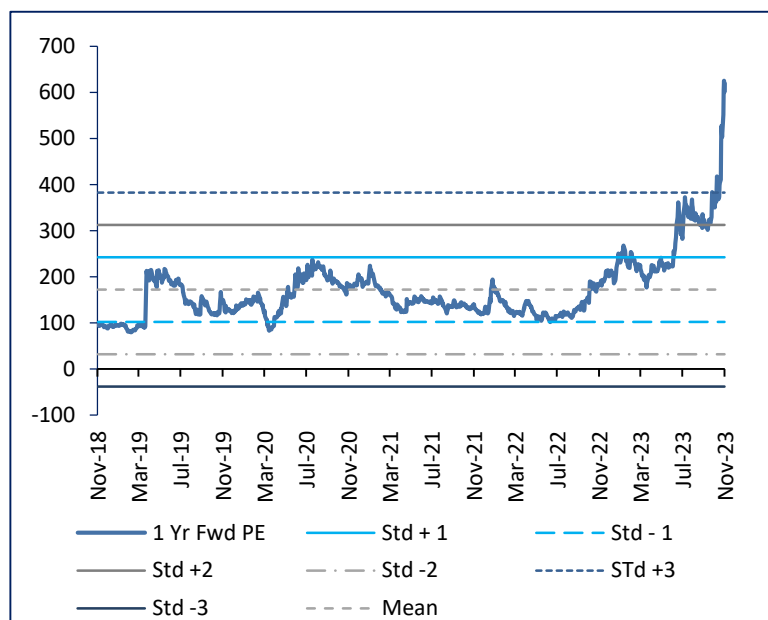
Source: Company, CEBPL

R&D Expenditure Trend



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

## Income statement (Standalone in INR Mn.)

Particular	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,432	2,975	4,403	6,385	8,300
Gross profit	621	878	1,355	1,841	2,395
EBITDA	457	644	1,002	1,425	1,904
Depreciation	90	104	160	209	244
EBIT	367	540	842	1,215	1,660
Interest expense	172	226	213	253	309
Other Income (Including EO Items)	8	-19	14	15	17
Reported PAT	146	191	476	724	999
Minority Interest	-	-	-	-	-
Adjusted PAT	146	191	476	724	999
EPS (Rs)	0.7	0.9	1.6	2.4	3.3
NOPAT	265	350	623	899	1,212

## Balance sheet (Standalone in INR Mn.)

Particular	FY22	FY23	FY24E	FY25E	FY26E
Net worth	3,193	3,838	5,025	6,229	7,045
Minority Interest	-	-	-	-	-
Deferred tax	198	265	265	265	265
Total debt	1,152	1,417	2,128	2,528	3,428
Other liabilities & provisions	9	11	9	10	11
<b>Total Net Worth &amp; liabilities</b>	<b>4,552</b>	<b>5,531</b>	<b>7,428</b>	<b>9,033</b>	<b>10,749</b>
Net Fixed Assets	855	1,044	1,584	1,875	1,930
Capital Work in progress	245	249	150	151	152
Investments	13	13	15	16	18
Cash & bank balance	161	182	465	781	1,817
Loans & Advances & other assets	4	85	44	64	83
Net Current Assets	3,433	4,140	5,635	6,927	8,566
<b>Total Assets</b>	<b>4,552</b>	<b>5,531</b>	<b>7,428</b>	<b>9,033</b>	<b>10,749</b>
Capital Employed	4,345	5,255	7,153	8,757	10,473
Invested Capital	4,185	5,073	6,688	7,976	8,656
Net Debt	991	1,235	1,663	1,747	1,611
FCFF	192	(449)	(811)	(53)	1,000

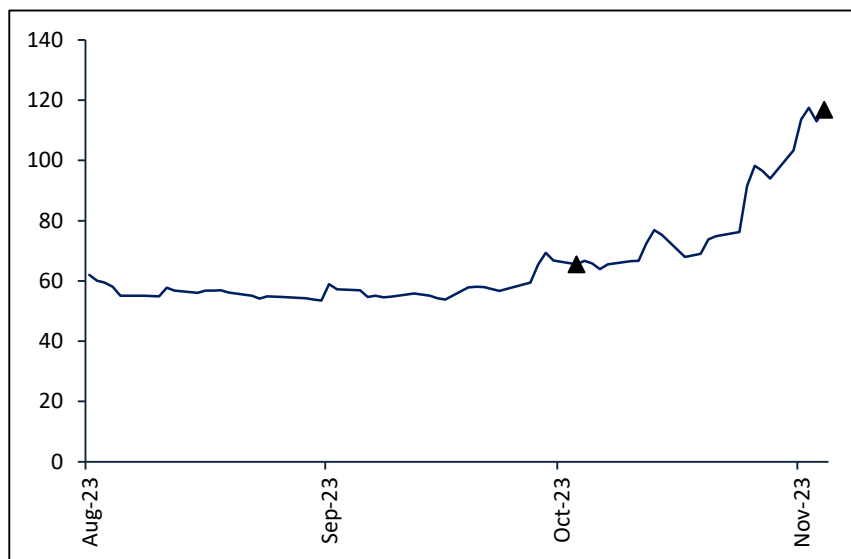
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
CFO	396	(153)	(210)	448	1,301
Capex	(203)	(296)	(601)	(501)	(301)
FCF	192	(449)	(811)	(53)	1,000
CFI	(217)	(348)	(602)	(502)	(303)
CFF	(178)	501	1,185	554	408

Ratio Analysis	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Revenue	19.8	22.3	48.0	45.0	30.0
EBITDA	18.5	41.0	55.6	42.2	33.7
PAT	42.6	30.4	149.5	52.1	38.0
<b>Margin ratios (%)</b>					
EBITDA	18.8	21.6	22.8	22.3	22.9
PAT	6.0	6.4	10.8	11.3	12.0
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	0.9	(0.2)	(0.2)	0.3	0.7
OCF/IC	9.5	(3.0)	(3.1)	5.6	15.0
RoE	4.6	5.0	9.5	11.6	14.2
ROCE	8.4	10.3	11.8	13.9	15.9
<b>Turnover Ratios (Days)</b>					
Inventory	444	419	350	300	250
Debtor	205	180	200	180	170
Other Current Assets (days)	57	58	43	32	27
Payables (days)	192	138	145	140	130
Other Current Liab & Provns (days)	491	486	429	351	297
Cash Conversion Cycle	444	419	350	300	250
<b>Financial Stability ratios (x)</b>					
Net debt to Equity	0.3	0.3	0.3	0.3	0.2
Net debt to EBITDA	2.2	1.9	1.7	1.2	0.8
Interest Cover	2.1	2.4	4.0	4.8	5.4
<b>Valuation metrics</b>					
Fully diluted shares (mn)	208	208	306	306	306
Price (Rs)	134.0	134.0	134.0	134.0	134.0
Market Cap(Rs. Mn)	27,818	27,818	40,956	40,956	40,956
PE(x)	190	146	86.1	56.6	41.0
EV (Rs.mn)	28,810	29,053	42,618	42,703	42,567
EV/EBITDA (x)	63	45	43	30	22
Book value (Rs/share)	15	18	16	20	23
Price to BV (x)	8.7	7.2	8.2	6.6	5.8
EV/OCF (x)	73	-189	-203	95	33

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 |

### Institutional Research Team

Kripashankar Maurya	AVP - Institutional Research – Automobiles/Defence	kripashankar.maurya@choiceindia.com	+91 22 6707 9949
Vatsal Vinchhi	Analyst – Information Technology	vatsal.vinchhi@choiceindia.com	+91 22 6767 9224
Deepika Murarka	Analyst – Pharmaceuticals	deepika.murarka@choiceindia.com	+91 22 6707 9513
CA Yogesh Soni	Analyst - Automobiles	yogesh.soni@choiceindia.com	+91 22 6707 9919
Putta Ravi Kumar	Associate – Defence Sector	ravi.putta@choiceindia.com	+91 22 6707 9512
CA Sheetal Murarka	Vice President - Institutional Sales	sheetal.murarka@choiceindia.com	+91 22 6707 9857
Nitesh Jalan	Senior Sales Manager -Institutional Sales	nitesh.jalan@choiceindia.com	+91 22 6707 9886 /877 /878 /879

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Compliance Officer-Swati Matkar. Tel. 022-6707 9999-Ext. 896. Email- [Compliance@choiceindia.com](mailto:Compliance@choiceindia.com)

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- [ig@choiceindia.com](mailto:ig@choiceindia.com)

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