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APOLLO MICRO SYSTEMS LIMITED

January 09, 2018

apollo microsystems

SMC Ranking

★★½☆☆ (2.5/5)

Issue Highlights

Industry	Defense
Total Issue (Shares)	5,672,727
Total Employee Reservation (Shares)	20,000
Net Offer to the Public	**5,672,727**
Issue Size (Rs. Cr.)	153-156
Price Band (Rs.)	270-275
A discount of Rs 12 per equity share is offered to Retail Investors & Employee.	
Offer Date	10-Jan-18
Close Date	12-Jan-18
Face Value	10
Lot Size	50

Issue Composition

	In shares
Total Issue for Sale	5,652,727
QIB	3,391,636
NIB	847,909
Retail	1,413,182

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	88.48%	67.46%
QIB	0.00%	17.24%
NIB	6.67%	4.31%
Employee reservation	-	0.10%
Retail	4.86%	10.89%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

- To meet additional working capital requirement of the Company
- General corporate purposes

Book Running Lead Manager

- Aryaman Financial Services limited

Name of the registrar Bigshare Services Pvt. Ltd

About the Company

Incorporated in 1997, Apollo Micro Systems Limited is Hyderabad based company engaged in the business of electronic, electro-mechanical, engineering designs, manufacturing and supply. The 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. It offers custom built COTS (Commercially off-the shelf) solutions based on specific requirements to defense and space customers.

Strengths:

Proven track record in developing new technological systems and order execution: The Company believes that its expertise and proven track record in implementation of projects provides the company with significant competitive advantages. Further this enables the company to be in a better position to deal with implementation risk. The company is also focussing, inter alia, on development of components/sub-systems for the defence segment, developed subsystems for large defence programmes and new technologies.

Recurring orders from existing programs: The Company has developed and supplied sub-systems and systems for various programs of the Ministry of Defence. These programmes provide a recurring opportunity for the Company. The company's order book as on Nov. 25, 2017 was Rs 97.50 crore excluding GST. It has managed to bag repeat and huge orders from its customers in the ESDM sector. Also the company's skilled manpower good organisational processes and professional approach give the company the competitive edge to procure repeat orders.

Strong R&D Capabilities: The Company has a strong R&D team of 56 engineers with core competencies in development of Embedded Hardware and Software along with engineering designs team. Its R&D professional has varied experiences in electronics and electro - mechanical engineering. The company focuses its R&D efforts in areas where it believes there is a significant growth potential. The company believes that its emphasis on R&D has been critical to its success and a differentiating factor from its competitors.

Quality control: The Company has undertaken various initiatives and adopted various systems and processes in order to augment its commitment to focus on quality which is crucial for the company and the industry it operates. Its manufacturing unit is well equipped with modern quality checking and testing equipment's for quality assurance. The Company is also CEMILAC certified for Design of Avionic Systems.

Strategy

Focus on R&D to develop complete systems to enhance the long-term prospects of its Company: The company intends to consistently invest in research and design to innovate and develop new products and become preferred solution provider for its customers. Further, to harness growing market opportunities and to maintain its lead position of a quality and reliable system supplier, it intends to focus on enhancing its technical knowhow to the next generation by assimilation of technology and using its strong R&D base.

Improving its productivity and competitiveness: The Company believes that its ability to increase its productivity and competitiveness at lower cost will be strengthened by its continued focus on offering a wide range of innovative products across all its business verticals. The company also intends to continue to focus on performance and project execution in order to maximize client satisfaction and further focus on energy efficiencies

aimed at reducing both capital and operating expenditures for its clients.

Leverage Build To Print opportunity: The Company has come up with a state-of-the-art manufacturing facility, which helps in process improvement and operational efficiencies.

Expand its business and geographical footprint through selective acquisitions: The company intends to augment its growth by continuing to pursue selective acquisitions and strategic alliances that provide the company access to better infrastructure, industry knowledge, technology expertise and geographical reach. The company also intends to pursue acquisitions that enhance its existing service offerings either qualitatively or geographically or to add new services that can be integrated with its existing services.

Continue to grow its overall market share by leveraging its presence in existing business verticals: In order to penetrate the market, the company is leveraging already designed and developed technologies to increase the sale of strategic projects for the customers. The company would continue to focus on improving its market share across all its business verticals. The company believes that it is well positioned to develop and implement new business models and operate critical business functions for its clients, based on the competencies it has developed and its successful implementation of various projects.

Business Diversification: The Company intends to diversify its services and solution categories into other industries or marketplaces. The company is also planning to foray into missiles and other system integration including wiring harness. The company intends to participate into growth opportunities arising out of the Digital India and the Make-in-India programs of the Indian Government. It intends to continuously identify and introduce new services and solution categories into other industries or marketplaces in order to diversify and de-risk its business profile and provide potential for further growth.

Risk

Dependency on PSU and Government Undertaking: The business of the company is significantly dependent on various Public Sector Undertakings and Government entities for their projects undertaken by OEM or other system integrator companies and could be materially and adversely affected if there are adverse changes in the policies of such Government entities.

Dependent on a few suppliers for supply of raw materials: The Company is dependent on a few suppliers for supply of raw materials and any major disruption to the timely and adequate supplies of its raw materials could adversely affect its business, results of operations and financial condition.

Negative cash flow: The Company had negative cash flows in the past years. Sustained negative cash flow could impact its growth and business.

Industry Outlook

The Indian aerospace and defence market presents an attractive and significant opportunity to various industry stakeholders across the supply chain. India has one of the fastest-growing global defence markets and spends annually USD 40 billion (1.62% of GDP in FY17) on the sector. India is also one of the largest importers of conventional defence equipment and spends about 31.5% of its total defence budget on capital acquisitions. Defence expenditure is expected to continue to grow, primarily due to the country's ageing military hardware and technology which is in dire need of replacing, and demands for defence against domestic insurgencies and hostility from neighboring countries. The Government's capital expenditure on defence has increased from USD3billion in 2000 to USD55.9billion in 2016. Despite the global economic environment being gloomy, the Indian economy continues to be a bright spot, with about 7% growth in Gross Domestic Product (GDP) for three consecutive years between 2014-15 and 2016-17. The Government of India's initiative, 'Make in India' aims to boost the nation's domestic manufacturing sector as well as to create market by targeting exports. The initiative aims to make India a preferred manufacturing destination comprising of 25 sectors that includes ESDM, automobiles, chemicals, IT, aviation, design manufacturing, renewable energy and several other sectors that rely heavily on electronics, expanding the opportunities to create employment, purchasing power, expenditure and supply. The defence

electronics manufacturing sector is expected to create an INR4trillion worth market opportunity during the period FY16 – FY26E.

Peer comparison

Company name	Total Operating Income	PAT	EPS	P/E	P/BV	BV	FV	CMP	MCAP
Astra Microwave	378.85	57.40	6.23	19.32	2.30	52.32	2.00	120.35	1042.37
Centum Electron	592.74	11.31	23.59	32.28	4.46	170.74	10.00	761.45	977.73
Apollo Micro	218.66	14.22	6.88	39.97	6.82	40.32	10.00	275.00	568.50

***Apollo Micro financials are annualised**
***Peers financials are TTM based**

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 275, the stock is priced at pre issue P/E of 29x on its projected annualised FY18 EPS of Rs. 9.48. Post issue, the stock is priced at a P/E of 39.97x on its EPS of Rs. 6.88. Looking at the P/B ratio at Rs.275 the stock is priced at P/B ratio of 5.41x on the pre issue book value of Rs.50.83. and on the post issue book value of Rs. 42.32 the P/B comes out to 6.82x.

On the lower end of the price band of Rs.270 the stock is priced at pre issue P/E of 28.47x upto its projected annualise FY18 EPS of Rs. 9.48.Post issue, the stock is priced at a P/E of 39.24x on its EPS of Rs. 6.88. Looking at the P/B ratio at Rs. 270, the stock is priced at P/B ratio of 5.31x on the pre issue book value of Rs. 50.83 and on the post issue book value of Rs. 42.32, the P/B comes out to 6.70x.

Outlook

The company believes that it is well positioned to address the growing requirements in Defence Electronics through Indigenous programmes in which it has been partners for past several years apart from which the Defence offset business which is poised to grow constantly year after year opening newer opportunities for Indian Defence electronics manufacturing companies. The initiatives of Government of India in terms of smart cities, Digital India, Make in India and huge initiatives to grow ESDM (Electronic System Design and Manufacturing) Sector are likely to support the growth of the company going forward.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	January 10, 2018
Bid/Offer Closing Date	January 12, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	January 17, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	January 12, 2018
Credit of Equity Shares to depository accounts of Allottees	January 19, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	January 22, 2018

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Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	109.33	211.27	159.04
management fees			
Total expenditure	89.99	170.61	133.83
Operating Profit	**19.35**	**40.66**	**25.22**
OPM%	17.70	19.24	15.86
Other Income	0.14	0.53	0.49
PBDIT	**19.49**	**41.19**	**25.71**
Depreciation	3.04	3.93	2.72
PBIT	**16.45**	**37.27**	**22.98**
Interest	5.82	11.44	8.14
PBT	**10.62**	**25.83**	**14.84**
Expectional Item prior period	0.00	1.28	0.00
Tax	3.51	8.54	4.84
Profit After Tax	**7.11**	**18.57**	**10.00**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 31-Mar-16
Non-current assets			
Tangible assets	31.32	29.98	21.14
Capital Work-in-Progress	19.65	12.86	10.12
Other non current Assets	3.43	0.00	0.00
Total Non- Current Assets	**54.41**	**42.85**	**31.25**
Current assets			
Investories	136.82	114.08	72.60
Trade Receivables	88.78	71.46	86.34
Cash and Bank Balance	5.92	8.78	6.94
Short Term loans & Advances	8.73	8.52	5.64
Other Assets	0.01	0.17	0.19
Total current assets	**240.27**	**203.01**	**171.70**
Total Assets	**294.68**	**245.86**	**202.96**
Non-current liabilities			
Long term Borrowings	29.93	13.53	15.68
Deferred tax liabilities	10.32	8.16	3.91
Other Long term Liabilities	1.99	9.30	6.52
Long term Provisions	0.42	0.38	0.32
	0.00	0.00	0.00
Total non-current liabilities	**42.66**	**31.37**	**26.43**
Current liabilities			
Short term borrowings	67.03	65.56	48.99
Trade Payables	90.16	67.87	71.57
Other Current Liabilities	13.03	13.45	8.26
Short term Provisions	5.55	4.22	2.91
Total current liabilities	**175.77**	**151.11**	**131.73**
Total	**218.43**	**182.49**	**158.16**
NET Worth	**76.25**	**63.37**	**44.80**
Net worth represented by:			
Share capital	14.00	13.71	13.71
Other Equity	62.25	49.66	31.09
	0.00	0.00	0.00
Net Worth	**76.25**	**63.37**	**44.80**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★ ★
FAIR	★ ★ ★
GOOD	★ ★ ★ ★
EXCELLENT	★ ★ ★ ★ ★

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