

Press Release

Apollo Micro Systems Limited

September 09, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.157.50 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.157.50 crore bank facilities of Apollo Micro Systems Limited (AMSL). The outlook is '**Stable**'.

Incorporated in the year 1997, AMSL is engaged primarily in design, development and manufacturing of electronics, mechanical & electromechanical systems/ sub-systems for defence, space, naval, aerospace, aviation sectors. The company is based out in Hyderabad, Telangana. AMSL was initially established as a Sole Proprietorship firm in 1985 by Mr. Karunakar Reddy and later converted into a private limited company. In January 2018, AMSL came out with initial public offering (IPO) and is currently listed on BSE and NSE.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of AMSL to arrive at this rating.

Key Rating Drivers

Strengths

• **Experienced management and established presence in the industry**

AMSL was established in the year 1985 and had a long track record of operations in the electronic systems design and manufacturing (ESDM) segment with significant experience of the promoters in the industry. The founder and the managing director, Mr. Karunakar Reddy has more than three decades of experience in the said industry. He has been instrumental in successfully developing solutions for defence & space programs. The promoters are supported by the well qualified and experienced management team. The company boasts 280+ highly skilled engineers and scientists and has in-house R&D centre. The company carries proprietary rights of large number of applicable and commercially valuable designs and developed more than 300 technologies.

Acuite believes that AMSL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term

• **Reputed clientele**

The company is providing electric and electronic hardware and software solutions for mission-critical applications to defence, aerospace, navy, and home land security. Their customers include Bharat Dynamics Limited, Bharat Electronics Limited, Defence Research and Development Organisation (DRDO), Silica Infotech Private Limited to name a few. AMSL currently offers its products and services to government entities and private companies in India. In line with their existing business and future business potential, AMSL has acquired 51% stake of Ananya SIP RF Technologies Private Limited. The company has entered into the business partnership/alliances with global technology partners to expand their product and solution offerings.

• **Healthy financial risk profile**

The financial risk profile is healthy, marked by healthy net worth and comfortable debt protection indicators. The net worth stood moderate at Rs.295.83 crore as on 31 March 2020 improving from Rs.281.93 crore as on 31 March 2019. The gearing improved to 0.28 times as on 31 March 2020 from 0.38 times in the previous year. The total debt of Rs.83.30 crore as on 31 March 2020 includes working capital borrowings of Rs.82.82 and long term debt of Rs.0.48 crore. Total outside liabilities to total net worth (TOL/TNW) also stood at 0.57 times as on 31 March 2020 as against 0.60 times as on 31 March 2019. Interest Coverage Ratio (ICR) deteriorated marginally however stood comfortable at 3.40 times in FY2020 as against 3.91 times in FY2019.

Acuite believes the company will be able to maintain its financial risk profile in the absence of any major

debt-funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

The company's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 543 days in FY2020 as against 501 days in FY2019. These high GCA days emanates from high inventory days of 384 days for FY2020 as compared to 295 days for FY2019. The debtor days stood at 201 days for FY2020 as compared to 235 days for FY2019. This has led to higher reliance on the working capital borrowings, for which the utilization was more than 95 percent for the past six months ended in June 2020. Acuite believes that the company's operations are expected to remain working capital intensive, as the company is engaged in designing and manufacturing of electronic components and systems that are custom made products resulting into the delayed production cycle.

- **Fluctuations in forex rates**

The company is exposed to fluctuations in foreign currency as it imports components and circuits and is also exposed to commodity price risk as per the nature of its business.

Liquidity position: Adequate

AMSL has an adequate liquidity position marked by healthy cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.23.91-35.31 crore during the last three years through 2019-2020, while its maturing debt obligations were in the range of Rs.0.47-8.94 crore over the same period. The operations are working capital intensive marked by Gross Current Asset (GCA) of 543 days in FY2020 compared to 501 days in FY2019. The average working capital limits utilization stood at more than 95 percent for the past six months ended June 2020. The current ratio stood moderate at 2.42 times as on 31st March, 2020. Acuite believes that going forward; the liquidity position of the company will continue to remain adequate in the medium term.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability
- Any deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuite believes AMSL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected cash accruals on the back of sustained growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	245.90	262.98
PAT	Rs. Cr.	14.01	29.12
PAT Margin	(%)	5.70	11.07
Total Debt/Tangible Net Worth	Times	0.28	0.38
PBDIT/Interest	Times	3.40	3.91

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	42.50	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00*	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00#	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3 (Assigned)

*Includes sublimit for WCDL of Rs.25.00 Cr, LC of Rs.25.00 Cr and BG of Rs.8.00 Cr

#Includes sublimit for WCDL of Rs. 12.50 Cr and LC of Rs.25.00 Cr

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About Acuité Ratings & Research:

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