



Press Release
APOLLO MICRO SYSTEMS LIMITED
July 06, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	171.50	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	9.00	-	ACUITE A3+ Assigned
Bank Loan Ratings	88.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	369.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.260.00 Cr bank facilities of Apollo Micro Systems Limited (AMSL). The outlook remains '**Stable**'.

Also, Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.109 Cr bank facilities of Apollo Micro Systems Limited (AMSL). The outlook is '**Stable**'.

Rationale for the rating reaffirmation

The rating reaffirmation takes into account the improved operating performance and comfortable financial profile of AMSL. The operating income of AMSL has been consistently growing since the last three years from FY2021. The company's revenue has recorded 22.34 percent Y-O-Y growth in FY2023, as it stood at Rs.297.53 Cr in FY2023 as against Rs. 243.19 Cr in FY2022. Its operating margin was healthy in the range of 18.77-21.64 percent for the last three years ended FY2023. Further, the rating factors in the capex of Rs. 115 Cr in current year (FY2024), which will result in an increase in scale of operations over the medium term. The financial risk profile of AMSL continues to remain above -average with moderate debt protection metrics and low gearing. The overall gearing of the Company stood at 0.37 times as on March 31, 2023 as against 0.36 times as of March 31, 2022. The interest coverage ratio stood at 2.76 times in FY2023 as against 2.70 times in FY2022. The rating, however, remain constrained on account of intensive working capital cycle with GCA days at

657 days as on March 31, 2023. Further, the same has led to a high reliance on short term bank borrowings with an average utilization of 90% for the last 10 months ended April 2023.

About the Company

Incorporated in 1985, Apollo Micro Systems Limited (AMSL) is promoted by Mr. Karunakar Reddy. The Company is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). AMSL is an electronic, electromechanical and engineering design, manufacturing and supplies company. It designs, develops, and sells high performance, mission and time critical solutions to Aerospace, Defence, Space & Homeland Security for the Ministry of Defence, government controlled public sector undertakings, and the private sector. It offers custom built COTS (Commercially off the shelf) solutions based on specific requirements to defence and space customers. The company's manufacturing unit is located in Hyderabad with its lab area confirming electrostatic discharge requirements with ESD-safe furniture and a controlled environment. AMSL is ISO 9001:2015 and CEMILAC (Centre for Military Airworthiness and Certification) certified organization.

Analytical Approach

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

Key Rating Drivers Strengths

Experience of the management team; established relationships with reputed clientele

AMSL has been an established player since 1985 in the electronic system design manufacturing (ESDM) segment with the significant experience of its promoter, Mr. B Karunakar Reddy in the aerospace and defense industries spanning over 30 years. AMSL has a strong R&D team focused on developing new products. The company works with the DRDO for research on strategic defense missions, developing commercially off the shelf solutions, which are the proprietary products of AMSL. It focuses on R&D as reflected by the increasing spend on the same over the years. Mr. C V S Prasad, one of the directors, has over 20 years' experience in defense electronic systems manufacturing, particularly critical systems and has worked with organizations like the Indian Space research Organization (ISRO) and SemiConductor Laboratory (SCL) in research department. The company provides electric and electronic hardware and software solutions for mission-critical applications to defense, aerospace, navy, and home land security among others. AMSL derives significant benefit from its promoter experience and has established strong relationships with its customers as well as suppliers for repeated business. The major customers include the Ministry of Defence (MoD), Defence Research and Development Organisation (DRDO), BrahMos Aerospace Private Limited, Bharat Electronics Limited (BEL), Hindustan Aeronautics Limited (HAL), and units operated by the Indian Space Research Organisation (ISRO) among others. Acuité believes that similar growth trajectory is likely to continue over the medium term backed by experienced management and an established longstanding relationship with reputed clientele.

Healthy financial risk profile

The financial risk profile of the company has remained healthy with healthy capital structure, low gearing, and moderate debt protection metrics. The net worth of the company stood at Rs.383.70 Cr and Rs.319.14 Cr as on March 31,

2023 and 2022 respectively. The net worth is improved due to addition of money received against share warrants of Rs.45.96 Cr and accretion of profits to the reserves. The company follows a conservative financial policy reflected in its peak gearing of 0.38 times as of March 31, 2021. The gearing of the company stood at 0.37 times as on March 31, 2023 against 0.36 times as on March 31, 2022 and 0.38 times as on March 31, 2021. Tol/ TNW stood at 0.80 times as on March 31, 2023 as compared to 0.87 times as on March 31, 2022. The debt protection metrics were comfortable with the interest coverage ratio and debt service coverage ratio stood at 2.76 times and 1.36 times as on March 31, 2023 respectively as compared to 2.70 times and 1.25 times as on March 31, 2022 respectively. The debt to EBITDA of the company stood at 2.29 times as on March 31, 2023 as against 2.49 times as on March 31, 2022. Acuite expects the financial risk profile to remain healthy over the medium term on account of the company's healthy capital structure and stable operations.

High entry barriers and moderate order book position

AMSL operates in a niche segment with a high entry barrier Defence and Aerospace industry. The company is 'Centre for Military Airworthiness and Certification (CEMIAC)' certified, whereby it is an approved design house for design and development of software and equipment for military aircraft application. This certification is based on technical experience and past record of such authorized design houses. AMSL deals with reputed clientele like Bharat Dynamics Limited, Bharat Electronics Limited, Defence Research and Development Organisation (DRDO) among others. As of June 23, 2023, AMSL has an unexecuted order book position of Rs. 336.86 Cr. Acuite believes, with high entry barrier coupled with long term nature of the contracts in the order book provides revenue visibility over the medium term. Further, AMSL's growth prospects remain healthy, supported by the Indian Government's focus on indigenization in the defence sector amid the Make in India thrust

Weaknesses

Working capital intensive nature of operations marked by high GCA Days

AMSL's working capital operations are intensive marked by its high Gross Current Asset (GCA) days of 657 days as on March 31, 2023 and 701 days as of March 31, 2022 on account of stretched receivables and sizeable inventory. AMSL primarily caters to domestic defence establishments that usually have long production cycles due to scrutiny and inspection involved in every stage of production, starting from raw material procurement to delivery of the systems. And also it manufactures various kinds of customized products which leads to a long turnaround time that varies across the segments, and furthermore the R&D cycle of defence products and solutions is long, which could stretch over several years. The inventory days stood at 535 days as on March 31, 2023 and 547 days as on March 31, 2022. The higher inventory levels as on March 31, 2023 are attributable to additional stocking of critical raw materials. Moreover, the systems need to be tested by its customers after delivery, after which the payments are released. This results in high debtor days at 180 days as on March 31, 2023 as compared to 205 days as on March 31, 2022. The company meets a part of its working-capital requirements by stretching payments to creditors; however, the same are backed by LCs. Moreover, AMSL offers solutions that form a part of the larger delivery system made by other system integrators with ultimate usage by the Ministry of Defence (MoD), which elongates the cycle further. Successful R&D of systems (for MoD) by AMSL is critical for its revenue growth. Its working capital limits are highly utilized at 90 percent over the past 10 months which ends in April, 2023. Acuite believes that the company's operations are expected to remain highly

working capital intensive, over the medium term and going forward, the company's ability to alleviate its working capital intensity will be a key rating sensitivity.

Rating Sensitivities

- Steady improvement in scale of operations supported by healthy order inflows along with an improvement in its profitability
- Further stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile

Material covenants

None

Liquidity Position: Adequate

AMSL's liquidity is adequate with adequate NCAs to its repayment obligations. ASPL generated cash accruals of Rs.29.43 Cr during FY2023, while its maturing debt obligations Rs.0.54 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.46-59 Cr during FY2024-25 while their repayment obligations are estimated to be around Rs.1-8.5 Cr during the same period. The average fund-based working capital utilization remained high at 90 percent for the past 10 months ended April, 2023. The Company has maintained unencumbered cash and bank balances Rs.0.14 Cr and the current ratio stood at 1.98 times as on March 31, 2023. Acuité expects that the liquidity of the company is likely to be adequate over the medium term on account of moderate cash accruals to its maturing debt obligations.

Outlook: Stable

Acuite believes that AMSL will continue to maintain a 'stable' outlook over the medium term from its promoters' extensive industry experience, and its strong research and development capabilities and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher- than expected revenue growth while maintaining profitability and capital structure, or sustained improvement in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in profitability margin, or significant weakening in capital structure caused by large, debt-funded capital expenditure or stretched working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	297.53	243.19
PAT	Rs. Cr.	19.06	14.62
PAT Margin	(%)	6.41	6.01
Total Debt/Tangible Net Worth	Times	0.37	0.36
PBDIT/Interest	Times	2.76	2.70

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

None

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Sep 2022	Bank Guarantee	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	42.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)

	Proposed Term Loan	Long Term	30.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	35.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	20.00	ACUITE BBB Stable (Assigned)
05 Aug 2022	Proposed Bank Facility	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	12.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Working Capital Demand Loan	Long Term	15.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	42.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	35.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	25.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
29 Oct 2021	Cash Credit	Long Term	40.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	42.50	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	35.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	12.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
		Short		

09 Sep 2020	Bank Guarantee	Term	12.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	30.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	17.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	42.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	40.00
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	12.50
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	52.50
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	1.00
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	9.00
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	100.00
Bajaj Finserv Limited	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	24.00

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About Acuité Ratings & Research

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