

Press Release
Apollo Micro Systems Limited
March 30, 2024



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.50	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	284.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	85.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	393.50	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.369.00 Cr. bank facilities of Apollo Micro Systems Limited (AMSL). The outlook remains '**Stable**'.

Also, Acuite has assigned its long-term rating to '**ACUITE BBB**' (read as **ACUITE t riple B**) on the Rs.24.50 Cr. bank facilities of Apollo Micro Systems Limited (AMSL). The outlook remains '**Stable**'.

Rationale for the rating reaffirmation:

The rating reaffirmation takes into account the improved operating performance and comfortable financial profile of AMSL since last two years ended FY2023 and same has been sustained in current year(FY2024). The company has already achieved Rs. 236.19 Cr. till December 2023. They are expecting to close the year by Rs. 390- 395 Cr. in FY2024, and EBITDA margins are expected to be in range of 22 – 23 percent in FY2024. 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. 149.05 Cr in current year (FY2024) & FY2025, which will result in an increase in scale of operations over the medium term. The financial risk profile of AMSL continues to remain healthy 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 is constrained by working capital intensive operations. Further, the same has led to a high reliance on short term bank borrowings with an average utilization of 83 percent for the last 10 months ended Feb 2024.

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.

Unsupported Rating

Not applicable

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 defence 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 defence 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 defence electronic systems manufacturing, particularly critical systems and has worked with organizations like the Indian Space research Organization (ISRO) and Semi- Conductor Laboratory (SCL) in research department. The company provides electric and electronic hardware and software solutions for mission-critical applications to defence, 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.

- **Improvement in scale of operations**

In current year the company had already achieved Rs. 236.19 Cr. till December 2023 (YTD) and is targeting to close the year by Rs. 378-385 Cr. in FY2024, and EBITDA margins are expected to be in range of 22 – 23 percent in FY2024. 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 capex of Rs.149.05 Cr. in current year (FY2024) & FY2025, is expected to result in an increase in scale of operations over the medium term. As of Feb 2024, AMSL has an unexecuted order book position of Rs. 344.88 Cr. Acuité believes that the company will continue to sustain its order book position and maintain its business risk profile over the medium term.

- **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 of 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 Feb 24, AMSL has an unexecuted order book position of Rs. 344.88 Cr. Acuite believes, with high entry barrier coupled with long term nature of contracts of the order book provides revenue visibility over the medium term. Further, AMSL's growth prospects remain healthy, supported by the Indian Government's focus towards indigenisation 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 83 percent over the past 10 months which ends in Feb, 2024. 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

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. Acuite 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)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- 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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
06 Jul 2023	Bank Guarantee/Letter of Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	52.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	35.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	9.00	ACUITE A3+ (Assigned)
	Proposed Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	100.00	ACUITE BBB Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	24.00	ACUITE BBB Stable (Reaffirmed)
02 Sep 2022	Bank Guarantee/Letter of Guarantee	Short Term	25.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	42.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	35.00	ACUITE A3+ (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Proposed Term Loan	Long Term	30.00	ACUITE BBB Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
05 Aug 2022	Bank Guarantee/Letter of Guarantee	Short Term	25.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee/Letter of Guarantee	Short Term	12.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	42.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	25.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	30.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
		Short		ACUITE A3+ (Upgraded from ACUITE

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

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A3+ Reaffirmed
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	57.50	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	77.50	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.50	ACUITE BBB Stable Assigned
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	35.00	ACUITE A3+ Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2031	Simple	110.00	ACUITE BBB Stable Reaffirmed
Bajaj Finserv Limited	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	05 Jan 2027	Simple	15.00	ACUITE BBB Stable Reaffirmed
Bajaj Finserv Limited	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.00	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Moparthy Anuradha Devi Analyst-Rating Operations Tel: 022-49294065 moparthy.anuradha@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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