

IPO UPDATE

Apollo Micro Systems Limited

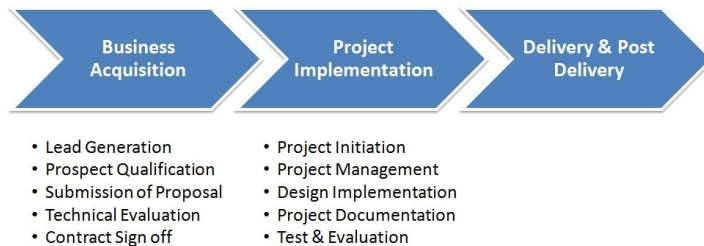
About the company:

Incorporated in 1997, Apollo Micro Systems Limited (AMSL) is an electronic, electro-mechanical, engineering designs, manufacturing and supplies company and thus designs, develops and sells high-performance, mission and time critical solutions to Defence, Space and Home Land Security for Ministry of Defence, government controlled public sector undertakings and private sectors. The company offers custom built COTS (Commercially off-the shelf) solutions based on specific requirements to the defence and space customers. The systems undergo various stages of approvals right from design, prototyping, functional acceptance, manufacturing and qualification testing. As the systems are exclusively developed for a programme; the developed systems enjoy the proprietary status and hence have no competition.

Further, under the defence system, the company offers various services which are described as under :

- Defence Avionic Systems
- Defence –Aerospace Systems
- Defence-Naval Systems
- Satellite Space Systems
- Homeland Security & Telematics
- Transportation

The business cycle of the company:



Source: Red Herring Prospectus

The Company has expertise in development of ruggedized weapon system electronics, signal processing systems for sonar and radar, on board instrumentation system for missile applications, high speed satellite and missile telemetry, automated test equipment, on-board electronics for under water missiles, electronic warfare signal processing systems for ground defence and under water defence, decoying systems, rudder controls for ship borne application, ground support equipment for missile and satellite checkout applications, high speed data acquisition systems, actuator controllers.

Revenues generated from the top 5 Customers:

Particulars	FY15	FY16	FY17	FY18 Till September
As % to total Sales	42.8%	35.0%	30.8%	63.8%

Company's Competitive Strengths :

- Repeated orders from existing programs
- Proven track record in developing new technological systems and order execution
- Strong R&D Capabilities
- Quality control

SNAPSHOT

Issue Opens	Wednesday, January 10, 2018
Issue Closes	Friday, January 12, 2018
Price Band	Rs270 to Rs275
Bid Lot	50 shares and multiples thereafter
Face Value	Rs10
Listing	BSE & NSE
Type of Issue	Fresh Issue of 56,72,727 shares
Offer Size	Fresh Issue Rs1,560mn
Implied Market Cap *	Rs5,685mn
PE (based on FY17 earning)*	30.6

*Note : No of Shares under Fresh Issued is calculated based on the fresh issue size of Rs1560mn at higher price band of Rs275. Implied Market Cap & PE are calculated at higher price band of Rs275

Issue allocation

Reservations	% of Net Issue
QIB	55%
NIP	15%
Retail	35%
Total	100%

Object of the offer

- To meet additional working capital requirement.
- General Corporate Purpose

Last 3 year Summarized Financials

Rs(mn)	FY15	FY16	FY17
Sales	1,084	1,590	2,113
EBITDA	181	252	407
EBITDA %	16.7%	15.9%	19.2%
Net profit After Tax	74	100	186
Net Profit Margin %	6.9%	6.3%	8.8%
Earning Per Share	5.4	7.3	13.5
RoNW(%)	21.4%	22.3%	29.3%

Last 3 year Summarized Cash flow

Rs(mn)	FY15	FY16	FY17
Cash flow from Operation	(39)	41	115
Cash flow from Investing	(104)	(96)	(155)
Cash flow from financing	157	88	57

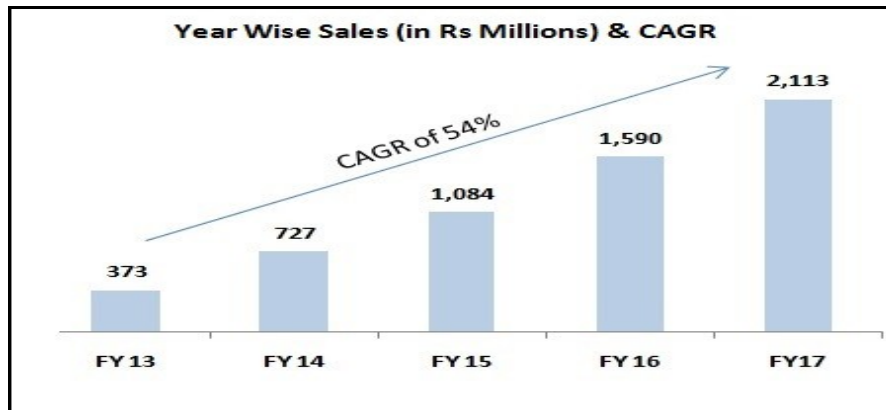
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Risks:

- Dependency on PSU's and government entities for projects
- Changes in government policy could have adverse impact on the company
- Limited number of customers
- Working capital intensive
- Limited number of customers

Financials :



Source: Red Herring Prospectus

Particulars Rs(mn)	FY14	FY15	FY16	FY17	FY18 Till September
Sales	727	1084	1590	2113	1093
<i>Sales Growth</i>	95%	49%	47%	33%	-
EBITDA	101	181	252	407	193
<i>EBITDA %</i>	13.9%	16.7%	15.9%	19.2%	17.7%
Net profit After Tax	53	74	100	186	71
<i>Net Profit Margin %</i>	7.3%	6.9%	6.3%	8.8%	6.5%

Source: Red Herring Prospectus

Outlook and Recommendations:

In terms of the valuations, at the upper price band of Rs275 and EPS of Rs13.5 in FY17, the P/E stands at 20.3x. There is a further discount of Rs12 per share for Employees and Retail Investors. Other listed peers like Bharat Electronics, are trading at a P/E of approx 26.5x. Also based on the P/B, the company stands at 5.41 times while its peer Bharat electronic stands at 5.75 times. Thereby, the IPO seems to be fairly priced. Further, with the government impetus being provided through the 'Make In India' initiative to the Defence sector, one can apply to the IPO to play the defence rally going ahead. The past performance of the company also stands strong for the company clocking sales CAGR of 54% from FY13 to FY17. Hence, considering the long term growth prospects of the sector as well as the benefits to the company, one can invest in the IPO for a long term horizon with or without listing gains.

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