

Apollo Micro Systems Limited

Issue Snapshot:

Issue Open: Jan 10 – Jan 12, 2018

Price Band: Rs. 270 – 275

*Issue Size: 56,72,727 Equity Shares (of which Employee reservation of upto 20,000 eq sh)

A discount of Rs 12 per equity share is offered to Retail Investors & Employee

Offer Size: Rs.153.2 crs – 156.0 crs

QIB	Upto 50% eq sh
Retail	atleast 35% eq sh
Non Institutional	atleast 15% eq sh

Face Value: Rs 10

Book value: Rs 54.46 (Sept 30, 2017)

Bid size: - 50 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 15.00 cr
Post issue Equity:	Rs. 20.67 cr

Listing: BSE & NSE

Book Running Lead Manager: Aryaman Financial Services Limited

Registrar to issue: Bigshare Services Pvt Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	88.48	64.20
Public & Others	11.52	35.80
Total	100.0	100.0

Source for this Note: RHP

Background & Operations:

Apollo Micro Systems Limited (AMSL) is an electronic, electro-mechanical, engineering designs, manufacturing and supplies company. It designs, develops and sell 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. Its ustomised solutions are developed using common hardware and software technology IP's which can be re-configured to suit the end application and domain requirements of end customer. The huge repository of knowledge and technology base that the company has developed since inception is a strong base to outperform the competition and be abreast in the market. This supports to constantly upgrade the technologies to meet present and futuristic requirements of the customers.

AMSL offers custom builds COTS (Commercially off-the shelf) solutions based on specific requirements to defence and space customers. The systems undergo various stages of approvals right from design, prototyping, functional acceptance, manufacturing and qualification testing. It has its participation in several Indigenous Missile programmes, underwater electronic warfare, underwater missiles, surface to air missiles, nuclear missile programmes, surface to surface missile programmes, indigenous submarine programmes UAV's long and short endurance, ships, space programmes.

The defence systems supplies can be broadly classified as On-Board Systems and Ground support equipment. On- Board systems means the electronic systems which are integrated On-Board a Weapon or a Vehicle (Vehicle could be a Missile, Aircraft, Ship, Submarine or Battle Tank) which are used for navigational requirements, on-board computation, instrumentation & control, telemetry, Payload acquisition and encoding, command & Guidance. Signal Processing, Seeker data processing, Height Analyzers requirement (Altimeter), Power Electronics to power the On- Board Electronics. Ground Support Equipment means any other electronics which are associated and communicate with On-Board equipment or other support equipment which are required for command control communication, Ground Checkout, Launch of Vehicles and other associated systems. It offers both On-Board Systems as well as Ground support equipment..

AMSL is well positioned to take advantage of the growth opportunities arising out of the Digital India and the Make – in – India programs of the Indian Government. The Company is also 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 is an added advantage for the Company.

For the six months period ended September 30, 2017 and Fiscal 2017, Fiscal 2016, Fiscal 2015, Fiscal 2014 and Fiscal 2013, AMSL's total income, was Rs. 10,947.41 lacs, Rs.21,179.98 lacs, Rs.15,953.17 lacs, Rs.10,876.83 lacs, Rs.7,288.18 lacs and Rs.3,745.81 lacs respectively and its profit after tax, was Rs.711.15 lacs, Rs.1,857.11 lacs, Rs. 1,000.05 lacs, Rs.744.76 lacs, Rs.534.01 lacs and Rs.295.95 lacs respectively. The Company's Order Book (as Defined hereinafter) is Rs.9,750.11 lacs excluding GST, as of November 25, 2017.

Objects of Issue:

The Net Proceeds from the Fresh Issue are proposed to be utilised towards the following objects:

- To meet additional working capital requirement of AMSL .
- General corporate purposes

Requirements of Funds
(Rs. In Lacs)

Particulars	Amount
To meet additional working capital requirement of AMSL.	11892.0
General corporate purposes	*

Competitive Strengths

- Proven track record in developing new technological systems and order execution.
- Recurring orders from existing programs.
- Strong R&D Capabilities.
- Qualified and experienced workforce and senior management.
- Quality control.

Business Strategy:

- Focus on R&D to develop complete systems to enhance the long-term prospects of the Company.
- Improving productivity and competitiveness.
- Leverage Build To Print opportunity.
- Expand business and geographical footprint through selective acquisitions.
- Continue to grow overall market share by leveraging presence in existing business verticals
- Business Diversification

Key Concerns

- Business is significantly dependent on various Public Sector Undertakings and Government entities for 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.
- If AMSL is unable to collect its dues and receivables from, or invoice its unbilled services to, its customers, its results of operations and cash flows could be adversely affected.
- Business is working capital intensive. If AMSL is unable to generate sufficient cash flows to allow to make required payments on debt or fund working capital requirements, there may be an adverse effect on its results of operations.
- AMSL's work with government clients exposes s to additional risks inherent in the government contracting environment.
- AMSL's business will suffer if it fails to anticipate and manage increasingly large and complex projects
- Revenue depends to a large extent on a limited number of customers, and its revenue could decline if AMSL lose a major customer.
- Dependent on a few suppliers for supply of raw materials and any major disruption to the timely and adequate supplies of raw materials could adversely affect AMSL's business, results of operations and financial condition.
- Success of AMSL depends to an extent on research and development capabilities and failure or hindrance to derive the desired benefits from product research and development efforts or introduce new solutions may hurt competitiveness and profitability.
- Any inability on AMSL's part to comply with prescribed specifications and standards of quality in connection with its products and/or manufacturing facility could adversely impact business and operations.
- Shortages in, or rises in the prices of, raw materials or components for products AMSL manufacture, which account for majority of its costs, may adversely affect the business
- AMSL has unsecured loan availed from Karunakar Reddy Baddam, Promoter of the Company, that may be recalled by him at any time.
- AMSL face foreign exchange risks, primarily in export and procurement operations that could adversely affect results of operations.
- AMSL may be unable to obtain future financing to fund its operations, expected capital expenditure and working capital requirements on favourable terms, or at all.
- Delays in completion of AMSL's current and future projects and cost overrun could have adverse effect on business prospects and results of operations.
- AMSL's business and operations has experienced rapid growth in recent periods, and if it do not effectively manage any future growth or are unable to improve systems and processes, integrate new systems or train new employees, its operating results may be adversely affected.
- AMSL's will continue to be controlled by its Promoter after the completion of the Issue, and its Promoter's interest may differ from those of other Shareholders.
- The number of orders AMSL has received in the past and trs current order book may not be indicative of its future growth rate or the number of orders it will receive in the future.
- Intense competition in the market for Defence ESDM sector could affect AMSL's pricing and have a material adverse effect on business, financial condition and results of operations.

- AMSL's business is not of continuous production in nature and is dependent on programme to programme basis thus resulting in varied results for different operating periods as well as Balance Sheet situations.
- AMSL's may not be able to secure new contracts if it is unable to issue the requisite performance guarantees.
- Increases in interest rates may materially impact AMSL's results of operations
- Business requires AMSL to obtain and renew certain licenses and permits from government, regulatory authorities and the failure to obtain or renew them in a timely manner may adversely affect the business operations.
- AMSL's profitability could suffer if it is not able to maintain optimum employee utilization.
- AMSL's may be unsuccessful in expanding into new and emerging markets, which may limit the ability to grow
- Any failure in AMSL's information technology systems may adversely affect the business, results of operations and financial condition.
- AMSL's may be affected by competition law in India and any adverse application or interpretation of the Competition Act could adversely affect the business.
- Investors may be adversely affected due to retrospective tax law changes made by the GoI affecting AMSL.

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