

Recommendation

Apollo Micro Systems Ltd.		BUY
Current Market Price (CMP) Rs. 146.70	Target Price Rs. 175	

Our price target of Rs. 175 offers upside of approximately 20% from current levels

Rationale

- Apollo Micro Systems (AMS) is a small-cap firm in the aerospace and defense industry. The company has developed a huge repository of knowledge and technology base since inception which has helped the company build a strong base that is needed to outperform the competition and be abreast in the market. This also provides the company with the support that is necessary for constant upgradation of the technologies implemented by the company in order to meet present and futuristic requirements of its customers.
- Annual Net Profits improving for last 2 year. Growth in quarterly net profit is accompanied by increasing Profit Margin. The company reported a 300% rise in the consolidated net profit on a year-on-year (YoY) basis to Rs 6.56cr in the quarter ended September 30, 2023. Its revenue from operations surged more than 55% YoY to Rs 87.16cr for the Q2 FY24. It's net profit rose 67% YoY to Rs 8.21cr for H1 FY24 with revenue from operations rising 33% YoY to Rs 144.85 cr in H1 FY23.
- Despite global uncertainty and supply chain instability AMS has delivered a decent set of performance during Q2, we expect the company will manage to achieve the growth guidance in FY24, said Choice Broking. AMS has participated in 55-60 programs, catering to Missiles, Naval Torpedoes and Underwater Mines. The company board considered and approved setting up of a defence equipment manufacturing facility in Hardware Park, Hyderabad, at an expenditure of ₹50 million. The company is well positioned in the industry with extremely low competition.
- The company has established strategic collaboration with MP3 International (a division of M/s Grade One Group, which is a well-known member of the EDGE GROUP, an Abu Dhabi government-owned company that is the UAE's pioneer in defense products) in the UAE, paving the way for enhanced market reach and deeper engagement with clients in the region.
- This low debt company has a price to book ratio that is lower than the industry median. Return on equity (ROE) improving since last 2 years. The company is poised for robust earnings growth in the near future. FII/FPI have increased holdings from 0.17% to 5.27% in Sep 2023 qtr.

Company Profile

Apollo Micro Systems Limited is an electronic, electro-mechanical, engineering designs, manufacturing and supplies company. It 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.

Negatives

- Increase in Promoter's Pledge.
- Domestic Mutual Funds have reduced holdings.



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