Apollo Micro Systems Limited

August 27, 2026

Facilities/Instruments	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Long-term bank facilities	RBI	1,246.17	CARE A- (RWD)	Assigned
Long-term bank facilities	RBI	283.83	CARE A- (RWD)	Assigned
Short-term bank facilities	RBI	350.00	CARE A2+ (RWD)	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has placed ratings on "Rating Watch with Developing Implications" in view of proposed acquisition of a controlling stake by Apollo Micro Systems Limited's (AMSL's) in Premier Explosives Limited (PEL), which remains subject to regulatory and statutory approvals, including approval from the Competition Commission of India (CCI). The transaction is also subject to completion of the mandatory open offer process under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations [SEBI (SAST) Regulations] and satisfaction of conditions precedent under the Share Purchase Agreement. Its completion further depends on the successful completion of the proposed equity fundraising programme planned by AMSL to support the acquisition funding requirements.
CareEdge Ratings will continue to monitor the progress of the transaction, completion of the proposed equity raise, and the resultant impact on consolidated credit metrics.

Ratings assigned to bank facilities of AMSL derive strength from its established presence in the defence electronics segment with proven technical capabilities and expanding presence across the defence value chain. Ratings also factor, AMSL's ongoing transition from a subsystem provider to a weapon system integrator. This transition is expected to enable AMSL to undertake higher-value defence programmes, with an anticipated increase in order ticket sizes going forward.

Ratings further derive strength from the company's growing scale of operations, with revenue surpassing ₹900 crore in FY26, driven by the execution of orders in hand besides increasing transition of products from the development phase to serial production. AMSL has maintained a healthy profitability, with profit before interest, lease rentals, depreciation and taxation (PBILDT) margins ranging between 21% and 24% over past four years while exhibiting a year-on-year improvement. The capital structure of the company remains comfortable, supported by the strengthening of net worth following the equity infusion through a preferential allotment in FY26. The company has proposed a preferential equity raise to support acquisitions, working capital requirements, and debt reduction. Pending receipt of these proceeds, AMSL availed an ₹850-crore bridge term loan in July 2026 towards the proposed acquisition of PEL, which is expected to leverage company's capital structure in the near term. The timely completion of the proposed equity raise and utilisation of proceeds for debt reduction will remain critical from credit perspective.

These strengths are partly offset by the inherently high working capital intensity of AMSL's operations, stemming from elevated inventory requirements and the long development, procurement, and production cycles characteristic of the defence sector. Ratings are further constrained by execution risks associated with the company's transition towards higher-value system integration, amid the increasing scale and complexity of the programmes being undertaken. AMSL's ability to successfully integrate IDL Explosives Limited (IDL) and derive the envisaged benefits from both the acquisition of IDL in FY26 and the proposed acquisition of PEL, without exerting pressure on its financial risk profile, remains a monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful integration of the acquired subsidiaries and scaling up of operations, with total operating income (TOI) exceeding ₹3,000 crore while maintaining PBILDT margin above 20%.
- Significant improvement in capital structure, with total debt/PBILDT declining below 2.0x.
- Notable improvement in gross current asset days from current levels.

[1]SEBI: Securities and Exchange Board of India; RBI: Reserve Bank of India; MCA: Ministry of Corporate Affairs; IRDAI: Insurance Regulatory and Development Authority of India; PFRDA: Pension Fund Regulatory and Development Authority
[2]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

Negative factors

- Significant decline in order inflows, resulting in TOI falling below ₹1,000 crore and PBILDT margin below 15%.
- Increase in working capital intensity resulting in higher-than-envisaged reliance on debt.

Analytical approach: Consolidated

In its analysis, CareEdge Ratings has considered the consolidated business and financial risk profiles of AMSL and its subsidiaries, as the entity is linked through a parent-subsidiary relationship and have business and financial linkages. Entities consolidated with AMSL have been placed in Annexure-5.

Outlook: Not applicable

Detailed description of key rating drivers

Key strengths

Experienced promoters and qualified management team with proven track record of business

AMSL benefits from the extensive experience of its promoter, B. Karunakar Reddy, who has over four decades of experience in the defence electronics industry. The company is supported by a qualified management team with expertise across defence electronics, engineering, research and development (R&D), manufacturing and programme execution. The management's technical capabilities and execution track record have enabled AMSL to build a diversified presence across defence programmes and applications.

AMSL has presence of over 40 years in defence electronics and systems, with approved-vendor status with Defence Research and Development Organisation (DRDO) and defence public sector undertakings (DPSUs). The company has participated in over 150 indigenous defence programmes and onboarded over 700 technologies, supported by continued investment in R&D. It has also expanded its capabilities towards system-level applications and holds a lifetime Department for Promotion of Industry and Internal Trade (DPIIT) licence for manufacturing, integration and testing of defence systems and weapon platforms, strengthening its positioning across the defence value chain.

Growing scale of operations and healthy profitability

AMSL has demonstrated strong growth in recent years, with revenue increasing at a compounded annual growth rate (CAGR) of ~39% over FY22-FY26, supported by growing participation in defence programmes and the transition of products from development to serial production. Revenue increased by 61% YoY to ₹904.32 crore in FY26, aided by improved order execution and contribution from IDL following its acquisition. Revenue is expected to grow over ₹1,500-2,000 crore in the next two fiscals.

The company has maintained healthy profitability, with PBILDT margins remaining in the range of 21-24% over the last four years, supported by operating leverage and better absorption of fixed costs. Consequently, return on capital employed (ROCE) improved to 14.0% in FY26, while lower finance costs relative to revenue also supported an improvement in profit after taxation (PAT) margins.

AMSL reported consolidated revenue of ₹251.29 crore and a PBILDT margin of 21.4% in Q1FY27. The consolidated order book stood at ₹1,704 crore as on August 8, 2026, providing healthy revenue visibility over the medium term.

Strong financial risk profile

AMSL's financial risk profile remains comfortable, supported by healthy capitalisation and a strong net worth base. The company's overall gearing and total outside liabilities to total net worth (TOL/TNW) stood at 0.47x and 0.87x, respectively, as on March 31, 2026, while interest coverage improved to 4.61x in FY26. Net worth increased to ₹1,157.22 crore, aided by equity infusions and profit accretion.

The company has proposed a preferential equity raise of ₹3,322.23 crore to support acquisitions, working capital requirements and debt reduction. The company has availed a bridge term loan of ₹850 crore in July 2026 to partially fund the acquisition of PEL, which is expected to moderate its capital structure in the near term. Management has articulated that substantial portion of this debt will be pre-paid through proceeds from the proposed equity raise. Accordingly, timely completion of the proposed equity infusion and the utilisation of proceeds towards debt reduction is likely to support expected deleveraging of its capital structure by FY28.

High entry barriers in the defence industry

The defence industry has high entry barriers due to stringent licensing, qualification and testing requirements, significant investment in R&D, specialised infrastructure and technical manpower, and the need to establish a demonstrated track record across defence programmes. The long development and qualification cycles also result in a long learning curve for new entrants to establish the requisite technical capabilities and programme credentials. The need for demonstrated execution capabilities and established relationships with defence agencies further strengthens the competitive positioning of established industry participants such as AMSL.

Expected strategic and operational benefits from the acquisition

AMSL acquired IDL in November 2025. IDL has an established presence in the explosives segment catering to the mining and infrastructure sectors. Over the medium term, AMSL intends to leverage IDL's explosives-related capabilities, subject to obtaining the requisite defence licences, to support backward integration and strengthen its presence across the defence value chain.

The proposed acquisition of PEL is expected to enhance AMSL's capabilities and expand its footprint across the defence ecosystem. However, IDL is currently incurring losses, and its ability to improve operating performance and contribute positively to consolidated profitability and cash flows, and the successful completion and integration of the proposed PEL acquisition, will remain monitorable.

Key weaknesses

High working capital intensity

AMSL's operations remain working capital intensive due to the long procurement lead times for specialised defence-grade electronic components and prolonged development and qualification cycles associated with defence programmes. Inventory is accumulated across multiple stages of programme execution, including development, testing, qualification and serial production, resulting in elevated inventory levels.

Payment realisation generally occurs only after product delivery, customer testing and acceptance, leading to an elongated cash conversion cycle. Increasing transition of products to serial production has supported an improvement in inventory efficiency, with inventory holding reducing from 499 days in FY23 to 369 days in FY26.

Going forward, operations are expected to remain working-capital-intensive considering growth in the order book and vertical integration and capability expansion within the defence value chain. While AMSL expects to fund a substantial portion of the incremental requirements through internal accruals and equity support, significant reliance on debt-funded working capital borrowings could exert pressure on the capital structure and remains a key monitorable.

Execution risk associated with transition to system integration

AMSL is transitioning from supplying defence electronics and sub-systems to undertaking system-level integration and manufacture of complete weapon systems. While the company has established experience in development of individual sub-systems, the transition would increase its responsibility for integration and overall system performance, including compatibility across multiple sub-systems and successful system-level testing and qualification. Any issues identified in integration or qualification could require design modifications and repeat testing, potentially affecting programme timelines. The risk is partly mitigated by AMSL's dedicated R&D team and specialised technical professionals, supported by its existing defence programme experience and in-house testing infrastructure.

AMSL is progressively transitioning from a supplier of defence electronics and subsystems to a system integrator and manufacturer of complete weapon systems. While this supports higher value addition and larger order opportunities, it also exposes the company to greater execution risks related to subsystem integration, system performance validation, qualification testing, and programme management.

Any delays or issues in integration and qualification may impact project timelines and costs. The risk is partially mitigated by AMSL's established R&D capabilities, experienced technical team and existing track record in defence programme execution.

Liquidity: Adequate

AMSL's liquidity position is adequate, supported by healthy cash generation and comfortable financial flexibility. The company reported gross cash accruals (GCA) of ₹147.12 crore in FY26 against scheduled term debt repayments of ~₹52 crore in FY27. While cash flow from operations remained negative in FY26 due to higher working capital absorption amid rapid business growth, the additional funding requirement was partly met through equity infusions and internal accruals.

The liquidity profile is further supported by moderate working capital utilisation, with average month-end utilisation of fund-based limits remaining ~70% in the 12 months ended July 2026. The company also maintained free cash and cash equivalents of ₹89.50 crore and a current ratio of 1.83x as on March 31, 2026.

Assumptions/Covenants - Not applicable

Environment, social, and governance (ESG) risks

Environment: AMSL has adopted practices relating to resource optimisation, material reuse and recycling, energy efficiency, and efficient inventory and logistics management. Environmental risks, including those associated with energy consumption, emissions and hazardous waste, are monitored through internal audits and process-level controls.

Social: AMSL undertakes CSR initiatives in the areas of environmental sustainability, community development and education. These include plantation and green-zone development, installation of solar-powered lighting, and support for educational infrastructure and digital learning.

Governance: AMSL's governance framework comprises a mix of executive, non-executive and independent directors, supported by board-level committees. Internal policies and oversight mechanisms are in place to facilitate regulatory compliance, ethical conduct, accountability and stakeholder oversight.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Aerospace & defense	Aerospace & defense

AMSL commenced operations in 1985 under the proprietorship of B. Karunakar Reddy and was subsequently incorporated as a private limited company in 1997. The company was listed on the BSE and NSE in January 2018. Headquartered in Hyderabad, AMSL operates as a multidisciplinary defence technology company and Tier-I original equipment manufacturer (OEM).

The company is engaged in the design, development, and mass production of complex defence systems, sub-systems, weapons and platforms, including weapon integration. It has an environmental stress screening (ESS) testing facility with regular inspections in line with Directorate General of Quality Assurance (DGQA) standards. Its laboratory infrastructure complies with electrostatic discharge (ESD) requirements and includes ESD-safe furniture and a controlled environment. AMSL is certified under AS 9100D quality management standards and by the Centre for Military Airworthiness & Certification (CEMILAC).

AMSL currently operates two units in Hyderabad, namely Unit I at Uppal and Unit II at Adibatla. A third facility, spread across ~350,000 sq. ft., is under phased construction and is proposed to serve as a consolidated manufacturing hub. Going forward, Unit I is expected to be primarily used for R&D activities, while production operations will be undertaken at Units II and III.

Consolidated

Brief Financials (₹ crore)	March 31, 2025 (A)	March 31, 2026 (A)	Q1-FY26 (UA)
Total operating income	562.07	904.32	251.29
PBILDT	129.21	218.16	53.73
Profit after tax (PAT)	56.36	107.38	25.22
Overall gearing (x)	0.56	0.47	NA
Interest coverage (x)	3.78	4.61	5.01

A: Audited; UA: Unaudited; NA: Not available. Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

For complexity level of instruments rated refer to Annexure-1

Lender details: Annexure-4

Disclosure on facilities/instruments and name of the regulators:
A list of facilities / instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by CareEdge Ratings on its website. A link to the same has been provided below for ready reference:

https://www.careratings.com/activities_and_regulators

Note: For facilities or instruments falling under the purview of FSRs other than Securities and Exchange Board of India (SEBI), the grievance / dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Annexure-1: Details of instruments/facilities

Name of the Instrument	Name of the Regulator	Complexity Level	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	RBI	Simple	-		-	-	410.04	CARE A- (RWD)
Fund-based - LT-Term Loan	RBI	Simple	-		-	30-06-2032	1119.96	CARE A- (RWD)
Non-fund-based - ST-BG/LC	RBI	Simple	-		-	-	350.00	CARE A2+ (RWD)

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2026-2027	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024
1	Fund-based - LT-Cash Credit	LT	410.04	CARE A- (RWD)				
2	Fund-based - LT-Term Loan	LT	1119.96	CARE A- (RWD)				
3	Non-fund-based - ST-BG/LC	ST	350.00	CARE A2+ (RWD)				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities - Not applicable

Annexure-4: Lender details

To view lender-wise details of bank facilities please click here

Annexure-5: List of entities consolidated

Sr. No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Ananya SIP RF Technologies Private Limited	Full	Subsidiary (51%)
2	Apollo Defence Industries Private Limited (ADIPL)	Full	Subsidiary (76%)
3	Apollo Strategic Technologies Private Limited	Full	Step-down subsidiary
4	IDL Explosives Limited	Full	Step-sown subsidiary (Wholly owned subsidiary of ADIPL)

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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