

Centum Electronics Limited

April 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	196.70	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	159.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Reaffirmed
Total Bank Facilities	355.70 (Rs. Three Hundred Fifty-Five Crore and Seventy Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Centum Electronics Limited (CEL), continues to derive strength from the business vintage of 29 years, experienced promoters, established association with reputed clientele base, above average financial profile though the performance has been muted in Q1FY22 due to lockdown followed by semiconductor and container shortage. The ratings take note of comfortable order book size of Rs.900+ crores as on December 31, 2021. These rating strengths are partially offset by the working capital-intensive operations and its exposure to French subsidiary Centum Adetel Group S.A (CAG). The ability of the CAG to turnaround the operations without the CEL's financial support would be the key monitorable.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in the scale of operations beyond Rs.500 crore while maintaining PBILDT margin >15%
- TDGCA < 3x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Unforeseen financial support to CAG adversely impacting the debt protection metrics of CEL
- Significant decline in the scale of operations and overall gearing >1.5x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters and established track record of the company

Mr. Apparao V Mallavarapu Rao, CMD, has more than three decades of experience in managing the electronics business. CEL is engaged in the business of design and manufacturing high end electronics modules, systems and subsystems since 1994. He has ventured and successfully managed joint ventures with several multi-national companies. CMD is supported by Mr. Nikhil Mallavarapu (Executive Director) and Dr. Swarnalatha Mallavarapu (Non-Executive Director). The Company has high level of Corporate governance with 6 independent directors and support of managerial team with vast experience in the field of Electronics system design and manufacturing.

Diversified product and revenue mix across different geographies and industries

The Company's offerings range from customized product design & development, manufacturing services and turnkey solutions for mission-critical applications in the Defence, Aerospace, Space, Industrial, Medical and Communications industry. The company broadly operates under two Business Segments namely Strategic Electronics Business Unit (SEBU) and Electronics Manufacturing Solutions Business Unit (EMS).

CAG (subsidiary of CEL) has engineering division in France, with electronic system designing capabilities in industrial sector. Acquisition of CAG by CEL was primarily to take advantage of CAG's designing capabilities in industrial sector as CEL's designing is largely limited to defense/ aerospace industry. While the synergy is yet to take place, however, under steady state CEL would become one stop solution to all the companies across sectors for their electronic manufacturing and designing needs

Established association with reputed clientele base

CEL has delivered mission-critical electronics on almost all satellite programs of ISRO including the ambitious Chandrayaan and Mangalyaan projects, and also delivered 300 to 500 components for almost every Indian space mission. CEL has a comfortable order book of Rs.927.50 crore as on Dec 31, 2021.

The clientele base consists of reputed defence segment and aerospace research organizations such as Space Application Centre, ISRO, DRDO's, ABB, Thales, RAFAEL etc.,

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Above average financial profile marked by satisfactory coverage indicators

The covid-19 impact on CEL wasn't significant in FY21, though TOI degrew by 12%, profit margins remained similar with 15.41% EBIDTA and 5.6% PAT. Also, gearing improved to 0.58x as on March 31, 2021(PY:0.83x) due to lower WC limit utilization and improved network. Interest coverage improved to 3.96x(PY:2.86) and TDGCA improved to 3.5x(PY:5x) in FY21. CEL witnessed significant impact in Q1FY22, all the aerospace and defence organizations were closed for two months during lockdowns, post lifting lockdown the industry faced severe semiconductor and container shortage increasing the lead time. Also, the orders forecasted from the EMS division were delayed by the clients due to uncertainties in the business environment. The precedence over projects of SEBU division were changed by the defence clients based on their priorities post opening up of economy due to which CEL couldn't book the revenue of the projects that were completed to the extent of 60%-70%. However the company has been recovering from the muted performance in Q1FY22 and has achieved Rs.228.92 crore in 9MFY22.

Key Rating Weaknesses

Working capital intensive nature of operations

Amid container and semiconductor shortage, the lead time and the procurement cost has increased. The procurement orders are placed based on the client's acceptance to absorb the price difference and pay advances to reduce the lead time. CEL has been able to collect the advances for executing the orders and the reliance on the WC limits has reduced in the recent months. With improvement in collections and advances, CEL has prepaid the term loans of Rs.19.52 crore and the WC limit utilization has been in the range of 65%-70% since Aug 21(WC limits utilization were >90% during the same period last year). The WC limits are not expected to increase and the company expects the semiconductor and container shortage to continue until H1FY23, post ease of the above said constraints CEL plans to undertake capex of Rs.25-30 crore in the SEBU division.

Investment in loss making subsidiary but no guarantee/ commitment by CEL towards debt servicing

CEL took over Adetel in 2016, which was stressed asset and renamed it as Centum Adetel group (CAG). At the time of acquisition, Adetel had two divisions a) Energy division and b) Engineering division. Energy division was incurring losses as finding market was challenge and was sold off during FY20. CAG's operations were envisaged to be profitable subsequently but was impacted by Covid-19. Considering high debt repayments in near to medium term, it is important for CAG's operations to turnaround as per envisaged timelines. Acquisition of CAG by CEL was primarily to bring in the CAG's designing capabilities in industrial sector as CEL's designing is largely limited to defence/ aerospace industry. While the synergy is yet to take place, however, under steady state CEL would become one stop solution to all the companies across sectors for their electronic manufacturing and designing needs.

CAG has made provision for impairment of the investment of Euro 4.3 Mn in the books of accounts for the quarter ending 30th June 2021 in the consolidated financials which is non-cash in nature. CEL has the Put option liability to purchase additional stake in CAG from its existing shareholders.

Liquidity: Adequate

Liquidity is adequate with expected improvement in cash accruals aided by recovery in business and nil term debt repayments. The current ratio of the company stood at 1.18x as on March 31, 2021 [PY:1.12]. The company has cash and bank balances of 5.73 crore as on December 31, 2021. With improvement in collection cycle and customer advances, the average working capital utilization has come down in the recent months and average utilization remained at 74% for the last 12 months ending December, 2021.

Analytical approach: Standalone along with factoring support to subsidiaries, CAG.

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Short term instruments](#)

About the Company

Centum Electronics Limited (CEL) founded in 1994 in Bangalore by Mr. Apparao V Mallavarapu (Rao), a first-generation entrepreneur. Company is in Electronic system design and manufacturing, manufactures high end electronics modules, subsystems and systems used in the aerospace, defence, and industrial electronic sectors.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	486.36	428.00	228.92
PBILDT	75.26	65.94	19.12
PAT	25.04	23.98	-2.63
Overall gearing (times)	0.83	0.58	NA
Interest coverage (times)	2.86	3.96	NA

A: Audited, UA:Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	159.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT-Bank Guarantee		-	-	-	196.70	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	159.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (18-May-21)	-	-	-
2	Non-fund-based - LT-Bank Guarantee	LT	196.70	CARE BBB; Stable	1)CARE BBB; Stable (18-May-21)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I ATNW	ATNW >= Rs.217 crore
ii TOL/Adj Quasi TNW	TOL/Adj Quasi TNW < 1
iii Interest Cover	Interest Cover > 3x
B. Non financial covenants	
I Capex	Any capex requirement such as acquisition of shares / expansion shall not be from working capital borrowings. Shall be based on internal cashflows generated only.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Himanshu Jain
Contact no.: 8123793395
Email ID: himanshu.jain@careedge.in

Relationship Contact

Name: Pradeep Kumar V
Contact no.: +91-98407 54521
Email ID: pradeep.kumar@careedge.in

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