Centum Electronics Limited

December 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	22.50	CARE BBB; Stable	Assigned
Long-term bank facilities	196.70	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	179.00 (Enhanced from 159.00)	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Centum Electronics Limited (CEL) continue to derive strength from the business vintage of close to three decades as well as its established association with a reputed clientele base from which CEL has been receiving repeat orders. The ratings also derive strength from the above-average financial risk profile marked by satisfactory capital structure and debt coverage indicators. While the company's profitability margins was impacted during FY23 with higher execution of low margin orders; its revenues grown significantly during the year with improved availability of semiconductors and higher number of orders execution. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margins have shown improvement during H1FY24 with company catering to new client verticals, including auto, healthcare, etc. The ratings also take note of the comfortable order book size of CEL, which augurs well for its growth in the near to medium term. These rating strengths are partially offset by the working capital-intensive operations and its exposure to the French subsidiary, Centum T&S (CTS; erstwhile Centum Adetel Group), which has been incurring losses though showing recovery in FY23 and generating cash profits. CEL's management has guided that the operations of CTS are self-sustainable, and therefore, it does not require any financial support from CEL. However, any financial assistance from CEL to CTS, leading to the weakening of CEL's liquidity, will weigh negatively on its credit profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations while maintaining PBILDT margin>15%.
- Total debt to gross cash accruals (TDGCA)<3x.

Negative factors

- Unforeseen financial support to Centum Adetel Group adversely impacting the debt protection metrics of CEL.
- Significant decline in the scale of operations and unplanned debt-led capex impacting overall gearing>1.5x.

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

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the business would continue to scale up with improvement in profitably aided by long track record of operations.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and established track record

Apparao V Mallavarapu Rao, Chairman and Managing Director (CMD), has more than three decades of experience in managing the electronics business. CEL is engaged in the business of designing and manufacturing high-end electronics modules, systems and subsystems, since 1994. He has ventured into and successfully managed joint ventures (JVs) with several multinational companies. The CMD is supported by Nikhil Mallavarapu, Executive Director, and Dr Swarnalatha Mallavarapu, Non-Executive Director. The company has a high level of corporate governance with six independent directors and the support of the managerial

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

team with a vast experience in the field of electronics system designing and manufacturing. CARE Ratings believes that such long established track record would help the company in maintaining strong order book.

Diversified product and revenue mix across different geographies and industries

The company's offerings range from customised product design and development, manufacturing services, and turnkey solutions for mission-critical applications in the defence, aerospace, space, industrial, medical and communications industries. The company broadly operates under two business segments, namely, Strategic Electronic Business Unit (SEBU) and the Electronics Manufacturing Solutions Business Unit (EMS). CTS (a subsidiary of CEL) has an engineering division in France, with electronic system designing capabilities in the industrial sector. The acquisition of CTS by CEL was primarily to take advantage of CTS' designing capabilities in the industrial sector, as CEL's designing is largely limited to the defence and aerospace industries. Although the synergy is yet to take place, under a steady state, CEL will become a one-stop solution to all the companies across sectors for their electronic manufacturing and design needs. In CARE Ratings' opinion, presence of CEL in multiple divisions would help mitigating the exposure to inherent cyclicality involved with particular industry.

Established association with a reputed clientele base

CEL has delivered mission-critical electronics on almost all satellite programmes of the Indian Space Research Organisation (ISRO), including the ambitious 'Chandrayaan' and 'Mangalyaan' projects, and also delivered 300-500 components for almost every Indian space mission. The clientele base consists of reputed defence segment and aerospace research organisations, including the Space Application Centre, ISRO, Defence Research and Development Organisation (DRDO), ABB, Thales, Rafale, etc.

Above-average financial profile, marked by satisfactory coverage indicators

CEL's revenue after declining during FY21 and FY22 due to COVID-19-led disruptions has started to improve from FY23. The SEBU division was impacted by the COVID-19 lockdown. Post-lifting of the lockdown, the industry faced a severe shortage of semiconductors and containers, increasing the lead time. Also, the orders forecasted from the EMS division were delayed by the clients due to uncertainties in the business environment.

CEL's turnover has witnessed improvement from FY23 onwards to ₹501 crore (₹348 crore) as a result of reduced disruptions of semi-conductor availability. The earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins had declined during FY23 on account of execution of higher number of EMS division orders that offers lower margins compared to SEBU division. However, this has also shown improvement during H1FY24 at 14% (H1FY23: 6%), as the company is targeting new verticals, viz., auto (EV), healthcare, metro, etc., which have better margin proposition. The company continues to maintain strong order book of ₹1,467 crore as on September 30, 2023, which provides revenue visibility for medium term. CARE Ratings expects that with a sizeable order book in hand, the company is likely to maintain growth and profitability in the near to medium term. CARE Ratings notes that the company's debt coverage indicators remained satisfactory during FY23.

Key weaknesses

Working capital-intensive nature of operations

The company's business operations are working capital intensive considering long gestation period from winning to execution of order. Amid container and semi-conductor shortage, the lead time and the procurement cost had increased during past two years. 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 working capital (WC) limits has reduced. With improvement in collections and advances, CEL had prepaid its earlier term loans of ₹19.52 crore and the WC limit utilisation has been in the range of 65%-70% since August 2021 (WC limits utilisation were>90% earlier).

Investment in the loss-making subsidiary but no guarantee or commitment by CEL towards debt servicing

CEL took over Adetel in 2016, which was a stressed asset, and is currently named CTS. At the time of acquisition, Adetel had two divisions – an Energy division and an Engineering division. The Energy division was incurring losses, as finding a market was challenging, and it was sold off in FY20. Although CTS' operations were envisaged to be profitable subsequently, they were impacted by the COVID-19 pandemic. Considering the high debt repayments in the near to medium term, CTS' operations must turn around as per the envisaged timelines. During FY23, the revenues have improved to ₹447 crore (PY: ₹432 crore) and losses have come down at profit after tax (PAT) level to negative ₹11 crore (FY22: negative ₹41 crore). CAG is self-sufficient for making debt repayments and no support is required from CEL as per the management. CEL does not estimate any financial support required to be extended to CTS. As on September 30, 2023, CEL acquired 90.08% stake in this subsidiary from its existing shareholders thereby existing put option liability of CEL cease to exist.

Liquidity: Adequate

The liquidity of the company is adequate with expected improvement in cash accruals aided by recovery in business and marginal term debt repayments on expected capex. The current ratio of the company stood at 1.2x as on March 31, 2023 [PY: 1.22]. The company has cash and bank balances of ₹17 crore as on September 30, 2023.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial manufacturing	Industrial products

CEL was founded in 1994 in Bengaluru by Apparao V Mallavarapu (Rao), a first-generation entrepreneur. The company is into the design and manufacturing of electronic systems and manufactures high-end electronic modules, subsystems and systems used in the aerospace, defence, and industrial electronics sectors.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	348.01	500.55	290.00
PBILDT	42.60	53.68	40.40
PAT	11.77	19.40	16.65
Overall gearing (times)	0.78	0.77	0.92
Interest coverage (times)	2.97	3.58	4.56

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	December 2027	22.50	CARE BBB; Stable
Fund-based - LT/ ST-CC/PC/Bill discounting	-	-	-	-	179.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT-Bank guarantee	-	-	-	-	196.70	CARE BBB; Stable

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST*	179.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (08-Nov-22) 2)CARE BBB; Stable / CARE A3+ (01-Apr-22)	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 (08-Nov-22) 2)CARE BBB; Stable (01-Apr-22)	1)CARE BBB; Stable (18-May-21)	-
3	Fund-based - LT-Term loan	LT	22.50	CARE BBB; Stable				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill discounting	Simple
3	Non-fund-based - LT-Bank guarantee	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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