Centum Electronics Limited

January 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	232.13 (Enhanced from 219.20)	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	166.00 (Reduced from 179.00)	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Centum Electronics Limited (CEL) continue to derive strength from the business vintage of close to three decades and its established association with a reputed clientele base, from whom, CEL has been receiving repeat orders. Ratings also derive strength from above-average financial risk profile marked by satisfactory capital structure and debt coverage indicators at standalone level. The company's revenues have increased and profit before depreciation, interest, and taxation (PBDIT) margins have shown improvement in FY24. Ratings also take note of CEL's growing order book size, especially in the high-margin built-to-suit segment, which augurs well for its growth in the near-to-medium term. Ratings also take note of the company's plans to raise funds through preferential allotment, private placement or qualified institutions placement (QIP) of up to ₹250 crore for expansion of existing business and to manage increasing working requirements in line with expected increase in scale of operations. These rating strengths are partially offset by the working capital intensive operations and its exposure to the French subsidiary, Centum T&S (CTS), which has been incurring losses, though the management is of the view that CTS will break even in Q4FY25. CEL has extended financial support to CTS in FY24 and H1FY25. However, even after loading CTS' debt repayments on CEL standalone, debt service coverage ratio (DSCR) is expected to remain satisfactory.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations while maintaining PBDIT margin over 15%.
- total debt to gross cash accruals (TD/GCA) less than 3x.

Negative factors

- Unforeseen financial support to CTS adversely impacting CEL's debt protection metrics.
- Significant decline in scale of operations and overall gearing over 1.5x.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the business would continue to scale up with improvement in profitability aided by growing order book position.

Detailed description of key rating drivers:

Key strengths

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: 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. CTS' acquisition by CEL was primarily to take advantage of CTS' designing capabilities in the industrial sector, as CEL's designing is largely limited to 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 companies across sectors for their electronic manufacturing

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

and design needs. In CARE Ratings' opinion, CEL's presence in multiple divisions would help mitigating exposure to inherent cyclicality involved with this industry.

Experienced Promoters and established track record of the company

Apparao V Mallavarapu Rao, Chairman and Managing Director (CMD), has over three decades of experience in managing the electronics business. CEL is engaged in 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. CMD is supported by Nikhil Mallavarapu, Executive Director, and Tanya Mallavarapu, Non-Executive Director. The company has a high level of corporate governance with six independent directors, having vast experience in electronics system designing and manufacturing. CARE Ratings believes that such long established track record would help the company in maintaining a strong order book.

Established association with a reputed clientele base

CEL has delivered mission-critical electronics on almost all satellite programs of ISRO including the ambitious Chandrayaan and Mangalyaan projects, and delivered 300-500 components for almost every Indian space mission. Clientele base consists of reputed defence segment companies such as Space Application Centre, ISRO, DRDO's, ABB, Thales, and RAFAEL among others.

Above-average financial profile, marked by satisfactory coverage indicators

On standalone basis, CEL's turnover has grown by 26% in FY24. The PBDIT margins improved to 12.65% in FY24 (FY23: 10.72%) and is expected to be in the range of 12%-13% considering increasing order book with large ticket orders in the BTS segment, which is a high margin business. The company continues to maintain strong order book of ₹1303 crore as on September 30, 2024, which provides revenue visibility for the 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.

Key weaknesses

Working capital intensive operations

The company's business operations are working capital intensive, considering long gestation period from winning to execution of order. Amid container and semiconductor shortage, lead time and procurement cost increased. Procurement orders are placed based on the client's acceptance to absorb price difference and pay advances to reduce lead time. CEL has been able to collect advances for executing orders and reliance on working capital limits is low. Average utilisation is at 69%.

Investment in loss making subsidiary

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 however, fixed price contract margins, high employee costs among others impacted turnaround. CEL has infused ₹33 crore in CTS in FY24, of which, ₹14 crore was towards existing put option liability and ₹19 crore as support to subsidiary, and further invested €1 million in H1FY25. Management expects that no further support would be required as CTS is likely to breakeven by Q4FY25. In FY24, revenues have improved to ₹458.01 crore (PY: ₹447 crore).

Liquidity: Adequate

The company's liquidity is adequate with expected improvement in cash accruals aided by strong demand in business and expansion plans of the company. The company's average working capital utilisation stands at 69%. However, in case of continuing losses in subsidiary requiring funding support from CEL, which affects its liquidity would be key rating monitorable.

Environment, social, and governance (ESG) risks

Parameters	Risk factors
Environmental	1. The company's emphasis is on adopting clean energy for fuel purpose. 2. The company is reducing single use plastic as another CSR initiative.
Social	1. The company holds CSR activities every year for promoting community development.
Governance	1. The Company has strong policies in place, adhering to highest standards of transparency, accountability, and integrity in all their business dealings.

Applicable criteria

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	Industrial manufacturing	Industrial products

CEL was founded in 1994 in Bengaluru by Apparao V Mallavarapu, a first-generation entrepreneur. The company is into designing and manufacturing 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, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	500.55	632.80	299.61
PBILDT	53.68	80.06	33.38
PAT	19.40	36.25	14.10
Overall gearing (times)	0.39	0.33	NA
Interest coverage (times)	3.58	4.75	4.42

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

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	August 2028	15.43	CARE BBB; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	166.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT-Bank Guarantee	-	-	-	-	216.70	CARE BBB; Stable

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 2024-2025	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
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	166.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (19-Dec-23)	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	216.70	CARE BBB; Stable	-	1)CARE BBB; Stable (19-Dec-23)	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	15.43	CARE BBB; Stable	-	1)CARE BBB; Stable (19-Dec-23)	-	-

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE 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.

Contact us

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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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