

Rating Rationale

August 01, 2023 | Mumbai

Centum Electronics Limited*Ratings upgraded to 'CRISIL BBB / Stable / CRISIL A3+ '***Rating Action**

Total Bank Loan Facilities Rated	Rs.399.7 Crore
Long Term Rating	CRISIL BBB/Stable (Upgraded from 'CRISIL BBB-/Stable')
Short Term Rating	CRISIL A3+ (Upgraded from 'CRISIL A3')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Centum Electronics Limited (CEL; part of the centum group) to **'CRISIL BBB/Stable/CRISIL A3+'** from **'CRISIL BBB-/Stable/CRISIL A3.'**

The rating upgrade reflects sustained improvement in business and financial performance. Revenue grew at 18% in FY23 while the operating margin and return on capital employed (RoCE) moderated to 8.5% and 7% respectively in the same period. The revenue growth is expected to remain robust over the medium term supported by strong orderbook across business segments providing healthy revenue visibility. The upgrade also factors in strengthening of financial risk profile supported by steady debt reduction with repayment and no large debt funded capital expenditure considering major capital expenditure had already been incurred. CRISIL Ratings believes financial risk profile would sustain in view of the above. Debt protection metrics remain comfortable, with interest coverage and net cash accruals to total debt ratios seen at around 3.14 times and 0.27 times, respectively in fiscal 2023.

The ratings continue to reflect the extensive experience of the promoters and its professional management, established track record in Strategic Electronics Business Unit (SEBU) and Electronic Manufacturing Solutions (EMS) segment and comfortable financial risk profile marked by moderate capital structure and debt protection metrics. These rating strengths are partially offset by working capital-intensive operations and susceptibility to risks related to technology changes and changes in sourcing policies of customers.

Analytical Approach

CRISIL Ratings continues with the analytical approach of consolidating Centum Electronics Limited with its subsidiaries on account of high degree of operational fungibilities along with common management. This is in line with the earlier analytical approach. The intangible assets of the company amounting to Rs. 95 Cr as on March 2023 are being amortized over a period of 5 years. This is because the assets are revenue generating in nature consisting of computer software and intellectual property rights.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position, aided by the extensive experience of the promoter:

The promoters and the professional management team have diverse industry experience of about 20+ years. CEL caters to Defence, Space, Aerospace, Transportation, Automotive, Industrial & Energy and Healthcare. The company has had a long-established relationship with most of its customers like Defence Research and Development Organisation (DRDO), Indian Space Research Organization (ISRO), Space Application Centre spanning more than 10-15 years with repeat orders and a strong trust factor developed over many years of successful business relations. Due to the high technical complexity and know-how, the customers have typically stayed with their preferred and established suppliers over the decades. Products being used in critical areas, such as space and defence, bear testimony to the technical capability of the group. CEL is into 2 broad business segments namely Electronic Manufacturing Solutions (EMS), and Strategic Electronics Business Unit (SEBU) consists of Built to Specification (BTS) and Engineering R&D Services (ER&D) ensuring diversity in revenue profile.

Strong understanding of market dynamics would continue to support business risk profile. Over the decades, CEL has developed strong engineering and design capabilities which has helped it in meeting the changing demands from its customers. CEL has a healthy order book at hand of Rs.1538 Cr as on Mar 31, 2023, compared to that of Rs.1090 Cr as on Mar 31, 2022, spanning across its business segments, aided by its established track record of timely and satisfactory completion of projects. Further, established relationship with its key customer, continued innovation, and improving prospects of clean energy will support sustaining healthy growth in the medium.

Comfortable financial risk profile: Debt protection metrics are comfortable marked by interest coverage and NCATD (net cash accruals to total debt) of 3.14 times and 27% respectively in FY23. Also, in the backdrop of capex done towards improving profitability, debt protection metrics are expected to remain comfortable over the medium term. Net worth and gearing continue to remain moderate at around Rs.201 crore and 0.92 times respectively as on March 31, 2023. Total outside liabilities to tangible net worth (TOL/TNW) stood at 3.78 times as on March 31, 2023. However, with the expectation of healthy accretion to reserves and no major debt funded capex plans over the medium term, the capital structure is expected to improve over the medium term and would also remain a key monitorable.

Weaknesses:

Susceptibility to risks related to technology changes and sourcing policies of key customers : Any change in technology will require realignment of products in line with the end-user technology. Delays in such adjustments could weaken the group's competitive position. Also, significant portion of revenue is from various public sector undertakings and defence-related organizations such as Defence Research and Development Organisation (DRDO), Indian Space Research Organisation (ISRO), and the Ordnance factories of Government of India. This renders the company's revenue profile vulnerable to any significant change in Government of India's policies and capex plans regarding defence and space research programs.

Working capital-intensive operations: Working capital intensity remains high: gross current assets were sizeable at 260 days as on March 31, 2023, owing to inventory and debtors of 113 days and 120 days, respectively on the same date. The same is due to high inventory requirement of the variety of components used and elongated collection cycle accounting to high receivables, as majority of customers are government bodies. However, risk related to the same is mitigated as the tenders generally cater to funded projects / project with allocated budget. Any significant stretch in working capital cycle impacting the liquidity would remain a key rating monitorable.

Liquidity: Adequate

Bank limit utilisation is moderate and stood at around 80 percent for the twelve months ended April 2023. Annual cash accruals are expected to be over Rs 50 crore which are sufficient against annual term debt obligation of Rs.30-35 Crore over the medium term. The company maintains surplus cash and bank balances as additional liquidity which stood at around Rs.34 crore as on March 31, 2023.

Outlook: Stable

CRISIL Ratings believes that CEL shall continue to benefit from its established market position over the medium term.

Rating Sensitivity factors**Upward factors:**

- Sustained revenue growth rate while maintaining operating margin of more than 9% resulting in larger accruals against repayments.
- Sustenance of working capital management along with TOLANW of less than 2.6 times

Downward factors:

- Deterioration in TOLTNW to more than 4 times due to higher working capital debt or debt funded capital expenditure.
- Stretch in liquidity due to stretch in working capital or tight accruals.

About the Company

Set up by Mr Apparao V Mallavarapu (Chairman and Managing Director - CMD), a first-generation entrepreneur, in 1993, CEL manufactures modules and sub-systems used in the aerospace, defence, and industrial electronic sectors. CEL manufactures products for the rail transportation market, focusing on improving energy efficiency, security, and real-time information access. CMD is ably supported by his professional team consist of Executive Director Mr Nikhil Mallavarapu, Non-Executive Director Dr Swarnalatha Mallavarapu, five independent directors and Group CFO Mr K S Desikan.

Key Financial Indicators

As on / for the period ended March 31		2023	2022
Operating income	Rs crore	928.17	781.01
Reported profit after tax	Rs crore	80.21	-56.85
PAT margins	%	0.56	-6.84
Adjusted Debt/Adjusted Net worth	Times	0.92	2.53
Interest coverage	Times	3.14	2.89

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	12	NA	CRISIL BBB/Stable
NA	Export Packing Credit	NA	NA	NA	84	NA	CRISIL A3+
NA	Fund-Based Facilities	NA	NA	NA	83	NA	CRISIL BBB/Stable
NA	Non-Fund Based Limit	NA	NA	NA	196.7	NA	CRISIL A3+
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	1.5	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	Mar-28	22.5	NA	CRISIL BBB/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Centum Electronics Limited	100%	Parent company
Centum T&S	100%	Subsidiary
Centum Adetel Group	77.77	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	203.0	CRISIL A3+ / CRISIL BBB/Stable	21-04-23	CRISIL BBB-/Stable / CRISIL A3	30-09-22	CRISIL BBB-/Stable		--	23-10-20	CRISIL BBB-/Stable	CRISIL BBB-/Stable
			--		--	28-01-22	CRISIL BBB-/Stable		--	13-10-20	CRISIL BBB-/Stable / CRISIL A3	--
			--		--		--		--	07-10-20	CRISIL BBB-/Stable / CRISIL A3	--
			--		--		--		--	04-09-20	CRISIL BBB-/Stable / CRISIL A3	--
			--		--		--		--	09-04-20	CRISIL BBB-/Stable	--
			--		--		--		--	17-03-20	CRISIL BBB-/Watch Developing	--
Non-Fund Based Facilities	ST	196.7	CRISIL A3+	21-04-23	CRISIL A3	30-09-22	CRISIL A3		--	23-10-20	CRISIL A3	CRISIL A3
			--		--	28-01-22	CRISIL A3		--	13-10-20	CRISIL A3	--
			--		--		--		--	07-10-20	CRISIL A3	--
			--		--		--		--	04-09-20	CRISIL A3	--
			--		--		--		--	09-04-20	CRISIL A3	--
			--		--		--		--	17-03-20	CRISIL A3/Watch Developing	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	12	State Bank of India	CRISIL BBB/Stable
Export Packing Credit	84	State Bank of India	CRISIL A3+
Fund-Based Facilities	43	Kotak Mahindra Bank Limited	CRISIL BBB/Stable
Fund-Based Facilities	40	HDFC Bank Limited	CRISIL BBB/Stable
Non-Fund Based Limit	19.7	Kotak Mahindra Bank Limited	CRISIL A3+
Non-Fund Based Limit	177	State Bank of India	CRISIL A3+
Proposed Fund-Based Bank Limits	1.5	Not Applicable	CRISIL BBB/Stable
Term Loan	22.5	State Bank of India	CRISIL BBB/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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