
Rating Advisory

January 25, 2022 Mumbai

Advisory as on January 25, 2022

This rating advisory is provided in relation to the rating of Centum Electronics Limited

CRISIL Ratings vide its publication dated January 19, 2022 highlighted the aspect of non-co-operation by Centum Electronics Limited

Centum Electronics Limited has now shared the information requested and is cooperative.

You may access the Rating Rationale as appended below.

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Ratings

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Rating Rationale

October 23, 2020 | Mumbai

Centum Electronics Limited

Ratings Reaffirmed

Rating Action

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

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its ratings on the bank facilities of Centum Electronics Limited (CEL; part of the centum group) at CRISIL BBB-/Stable/CRISIL A3.

The ratings continue to reflect established market position, aided by the extensive experience of the promoter and its moderate financial risk profile. These strengths are partially offset by susceptibility to risks related to technology changes and working capital intensive operations.

Analytical Approach

CRISIL has, combined the business and financial risk profiles of CEL and its subsidiaries. This is because the entities, collectively referred to as the Centum group, have operational and financial linkages, and are controlled and managed by the same promoter.

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 promoter's experience of over two decades has helped establish healthy relationships with customers. Products being used in critical areas, such as space and defence, bear testimony to the technical capability of the group.

* **Moderate financial risk profile:** Financial risk profile is driven by moderate debt protection metrics. Interest coverage and net cash accruals to total debt ratio were at around 2.62 times and 14 percent for fiscal 2020. However, total outside liabilities to adjusted networth (TOLANW) remains high at around 6.33 times on account of sizeable debt, owing to large working capital cycle. In the absence of major debt funded capital expenditure (Capex), the financial risk profile is expected to gradually improve over the medium term.

Weaknesses:

* **Susceptibility to risks related to technology changes:** 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.

* **Working capital-intensive operations:** Working capital intensity remains high: gross current assets were sizeable at 295 days as on March 31, 2020 driven by inventory and debtors of 120 days and 103 days, respectively and expected to improve gradually over the medium term.

Liquidity Adequate

CEL's liquidity is adequate marked by adequate cash accrual for meeting repayment obligations; however partially constrained by high utilisation of the bank limits. Cash accrual in excess of Rs.50 crore is expected to be generated over the medium term that shall be adequate to meet repayment obligations. Liquidity is also supported by proceeds of the divestment of its energy division in its French subsidiary, Centum Adetel Limited for around Rs.56 crore (6.37 million Euros), the sale concluded in August 2020. Nevertheless, liquidity is partially constrained by high utilisation of the bank limits at around 90 percent for the twelve month ended July 2020

Outlook: Stable

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

Rating Sensitivity factors

Upward Factors

- * Improvement in TOLANW to less than 3 times
- * Improvement in working capital management

Downward Factors

- * Deterioration of interest coverage to less than 2 times
- * Any large debt funded capital expenditure adversely impacting financial risk profile

About the Group

Set up by Mr Apparao Mallavarapu, a first-generation entrepreneur, in 1993, CEL manufactures modules and sub-systems used in the aerospace, defence, and industrial electronic sectors. CAG manufactures products for the rail transportation market, focusing on improving energy efficiency, security, and real-time information access.

Key Financial Indicators

Particular	Units	2020	2019
Operating income	Rs Crore	883	933.55
PAT	Rs Crore	20	47.84
PAT Margin	%	2.27	5.12
Interest Coverage	Times	2.62	2.45
Adjusted debt/adjusted net worth	Times	2.78	3.06

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL 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. For more details on the CRISIL complexity levels, please visit

www.crisil.com/complexitylevels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	41	NA	CRISIL BBB-/Stable
NA	Cash Term Loan	NA	NA	Jun-23	24	NA	CRISIL BBB-/Stable
NA	Export Packing Credit	NA	NA	NA	35	NA	CRISIL BBB-/Stable
NA	Letter of Credit and Bank Guarantee	NA	NA	NA	177	NA	CRISIL A3
NA	Working Capital Loan	NA	NA	March-23	122.7	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

Current				2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fundbased Bank Facilities	LT/ST	222.70	CRISIL BBB-/Stable	13-10-20	CRISIL BBB-/Stable/ CRISIL A3	27-02-19	CRISIL BBB-/Stable	17-08-18	CRISIL BBB-/Stable/ CRISIL A3	13-11-17	CRISIL BBB+/Stable/ CRISIL A2	CRISIL BBB+/Watch Developing/ CRISIL A2/Watch Developing
				07-10-20	CRISIL BBB-/Stable/ CRISIL A3			26-04-18	CRISIL BBB+/Negative/ CRISIL A2	02-11-17	CRISIL BBB+/Stable/ CRISIL A2	

				04-09-20	CRISIL BBB-/Stable/ CRISIL A3			08-03-18	CRISIL BBB+/Negative/ CRISIL A2	21-02-17	CRISIL BBB+/Stable	
				09-04-20	CRISIL BBB-/Stable					13-01-17	CRISIL BBB+/Watch Developing	
				17-03-20	CRISIL BBB-/Watch Developing							
Non Fundbased Bank Facilities	LT/ST	177.00	CRISIL A3	13-10-20	CRISIL A3	27-02-19	CRISIL A3	17-08-18	CRISIL A3	13-11-17	CRISIL A2	CRISIL A2/Watch Developing
				07-10- 20 04- 09-20	CRISIL A3			26-04- 18 08- 03-18	CRISIL A2	02-11-17	CRISIL A2	
					CRISIL A3				CRISIL A2	21-02- 17	CRISIL A2	
				09-04-20	CRISIL A3					13-01-17	CRISIL A2/Watch Developing	
				17-03-20	CRISIL A3/Watch Developing							

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Curr nt facilities			Previ us facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	41	CRISIL BBB- /Stable	Cash Credit	41	CRISIL BBB- /Stable
		CRISIL BBB- /Stable			CRISIL BBB- /Stable
Cash Term Loan	24		Cash Term Loan	24	
Export Packing Credit	35	CRISIL BBB- /Stable	Export Packing Credit	75	CRISIL BBB- /Stable
Letter of credit & Bank Guarantee	177	CRISIL A3	Letter of credit & Bank Guarantee	196.7	CRISIL A3
Working Capital Loan	122.7	CRISIL BBB- /Stable	Packing Credit in Foreign Currency	20	CRISIL A3
--	0	--	Working Capital Demand Loan	43	CRISIL BBB- /Stable
Total	399.7	--	Total	399.7	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

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