

Centum Electronics Ltd (CEL)

Recommendation	:	Buy
CMP	:	Rs. 652
Buy Range	:	Rs.640-680
Target Price	:	Rs.925

Sector	:	Electronic Components
NSE Code	:	CENTUM
BSE Code	:	517544

Financial break up

Market Cap (Rs. Cr)	821
EPS (FY22)	: (20.15)
Face Value	: Rs.10/-
Share Holding Pattern:	
Promoters	: 58.80
Others	: 41.20

Background: Centum Electronics Limited (CEL) is a leading Electronics System Design & Manufacturing (ESDM) Company providing mission critical services and solutions to customers engaged in the Defence, Aerospace, Space, Medical, Mobility and Industrial segments that demand high reliability products and services. With deep domain expertise in design, development and manufacturing of complex products, Centum is a strategic supplier and partner to large global OEMs (including Fortune 500 companies) and public entities such as Indian DPSUs, Ordinance Factories, DRDO and ISRO. Your Company has an established global footprint with multiple design & manufacturing locations in Europe, North America, and India.

Diversified Product Mix

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. CEL broadly operates under two Business Segments namely Strategic Electronics Business Unit (SEBU) and Electronics Manufacturing Solutions Business Unit (EMS). Under SEBU, the company designs, develops and manufactures the product as per specifications. SEBU primarily supplies to the Indian Government customers. EMS involves mass manufacturing of box builds, system integration, printed circuit board assembly (PCBA), test, environmental screening and repair & return services for overseas customers.

High Entry Barrier

The company has a clear strategy to focus on global markets in the high reliability segments of Strategic Electronics, Medical, Industrial and Mobility where product complexity, long product life cycles and stringent customer requirements result in high entry barriers.

Established customer Relations

CEL has a comfortable order book position of more than is 1.5 times of TOI (Total Operating Income) denoting medium term revenue visibility. All the outstanding orders are from reputed customers. The customer profile of the company comprises of reputed players from government as well as private segment and it receives regular orders from all these customers.

Outlook & Valuation

We recommend a **Buy** on CEL for long term investors. Given the Government thrust on Indigenous production, High Entry Barrier, Established Customer Relations, and Cutting edge R&D are key positives for the stock. The key risks to the business include Project Overruns, Steep increase in Material Cost and Shortage of Electronic Components are the key risks of the company.

Investment Arguments

Company Profile:

Centum Electronics Limited (CEL) is a leading Electronics System Design & Manufacturing (ESDM) Company providing mission critical services and solutions to customers engaged in the Defence, Aerospace, Space, Medical, Mobility and Industrial segments that demand high reliability products and services. With deep domain expertise in design, development and manufacturing of complex products, Centum is a strategic supplier and partner to large global OEMs (including Fortune 500 companies) and public entities such as Indian DPSUs, Ordnance Factories, DRDO and ISRO. Your Company has an established global footprint with multiple design & manufacturing locations in Europe, North America, and India. More than 70% of the Company revenue is generated from international customers and markets.

The Company's mission is "To create value by contributing to the success of its customers, by being their innovation partner and offering design & manufacturing solutions in high technology areas."

Key Business Segments

Engineering R&D (ER&D) Services (37%) - Involves conceptualizing and designing of Electronic Hardware, Embedded Software, FPGA, Analog, Radio Frequency products, etc.

Electronic Manufacturing Services (EMS) (26%) - Services include manufacturing services solutions focused on a High Complexity products in high technology segment.

Build-To-Specification (37%) - Services include turnkey solutions to take project from conception to mass production quickly and efficiently.

Diversified Product Mix

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. CEL broadly operates under two Business Segments namely Strategic Electronics Business Unit (SEBU) and Electronics Manufacturing Solutions Business Unit (EMS). Under SEBU, the company designs, develops and manufactures the product as per specifications. SEBU primarily supplies to the Indian Government customers. EMS involves mass manufacturing of box builds, system integration, printed circuit board assembly (PCBA), test, environmental screening and repair & return services for overseas customers.

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.

High Entry Barrier

The company has a clear strategy to focus on global markets in the high reliability segments of Strategic Electronics, Medical, Industrial and Mobility where product complexity, long product life cycles and stringent customer requirements result in high entry barriers.

The Company's strategy is to be a one-stop-shop solution provider and has therefore developed strong end-to-end capabilities to work with customers from concept to commissioning and life cycle management. Customers have the flexibility to choose from Engineering Services, Manufacturing Services, or turn-key Build to-Specification solutions, or a combination thereof in a form of a solution.

Established Customer Relations

CEL has a comfortable order book position of more than 1.5 times of TOI (Total Operating Income) denoting medium term revenue visibility. All the outstanding orders are from reputed customers. The customer profile of the company comprises of reputed players from government as well as private segment and it receives regular orders from all these customers.

Cutting edge R&D Services

CEL's Technologies & Solutions business unit is engaged in providing cutting edge Engineering R&D services to help customers conceptualize, design and certify next generation products as well as customize and sustain existing products over their full lifecycle. CEL has been recognized as a trusted partner by its customers, which are large global OEMs, due to the deep domain knowledge built over 30 years and multidisciplinary competencies that include Electronic Hardware, Embedded Software, FPGA, Analog, RF/Microwave, and Power Electronics. The Company's design centers located in Europe, North America and India, enable the Company to work closely with international customers to solve complex problems while bringing together the best talent from around the world and providing a competitive solution. Centum also provides flexible engagement models depending on the specific project requirements and provides choice to the customers to choose between Consulting, Fixed Price Contracts or Build to Spec programs. This business unit also delivers complete Passenger Information Systems for rail market.

Adoption of Electronics & Hardware

As the adoption of electronics and software continues to increase in various sectors driven by a multitude of new applications, the demand for the company's services remains strong. While the COVID impacted demand in FY21 and part of FY22 with delays in several projects, the company has begun to see a recovery in H2 of FY22 and expect this to continue in the next fiscal year. CEL is focused on growing their relationships with top global customers by addressing their needs in critical programs. For example, in FY22, Centum T&S was awarded a major BTS program for an avionics product for a European defence program. Centum T&S was also awarded a large contract to deliver a series of test systems for a major military aerospace platform. The company began new engineering service projects for their key customers in areas such as space electronics and signalling for rail mobility market. Additionally, the company is building their opportunity pipeline in the growing investment areas of clean tech, e-mobility as well as Medical devices.

Strategic Electronics Division

The Strategic Electronics Division provides Built to Specification products which includes taking a project from conceptualization to mass production quickly and efficiently. Customers choose turn-key build to spec offering due to convenience of a single point of contact for Design/Engineering, Industrialization and Manufacturing which reduces the need for multiple interfaces at each stage of the project and also fastens the products time-to-market and facilitating a Design-To-Cost approach and reducing the Total Cost of Ownership.

CIL's unique positioning with a full range of integrated capabilities make it the ideal product realization partner. This engagement model involves higher IP and value creation opportunities for both the customer and for Centum. The Company is also able to improve the product Lifecycle management by proactively and effectively managing issues such as obsolescence, performance upgrades, market-specific localization and cost reduction.

Defense Business - Focus Area

The potential in the Defence business is huge and CEL has a strong focus on the Defence opportunities. CEL has been working with Defence Public Sector Units (DPSU), Ordnance Factory Boards (OFB) and DRDOs. Thanks to the initiative of Make in India by GoI, CEL will be addressing opportunities for electronics for Tri services of Tri Services under Make II category which has significant potential to grow.

CEL has already established itself as a key player in the Indian Defence & Space industry and designs, develops and manufactures critical sub-systems and systems in Missiles, Satellites, Electronic Warfare, Optronics, Radar, Communications among others. Consequent to the Space Reforms, lot of new opportunities are opening for the private enterprises including the start-ups. Centum is pursuing these opportunities as well. However, it may take some more time for these opportunities to be realized.

High Levels of Financing

CEL is working closely with customers to contribute to new projects in the Defence satellites and land systems domains. Defence Space Agency established by Indian armed forces, presents opportunities for your Company which has a long and credible space heritage. Also, a major focus area for defence procurement is expected to be around munitions and infantry combat vehicles. The company is working on indigenization opportunities to supply various electronics products in this domain of land systems.

Electronic Manufacturing Services

The Company's EMS Business Unit provides manufacturing solutions in high technology segments with high complexity products focused on high reliability areas. The Company helps its customers realize challenging products by having customer-focused teams that leverage the streamlined processes and systems and adapt them to the specific requirements of the customer and product where necessary. By providing scalable manufacturing solutions and a flexible, proactive approach to managing the supply chain and lifecycle related challenges, Centum helps customers to achieve their goals of lower Total Cost of Ownership and reduced time-to-market among others.

Key Risks

Project Overruns:

In the Engineering R&D services division, the company gets fixed price projects and sometimes due to change of specifications midway by the customer or underestimation of work involved, the company could have project overruns that create profitability issues.

Increase in material Cost:

In the Transport business, there are long term fixed rate contract projects that may run for several years, the material cost may increase resulting in adverse impact on the profitability.

Shortage of Electronic Components:

The severe shortage of electronic components and the increased lead times of procurement have adversely impacted the timely deliveries to the customers. The supply chain challenges are expected to continue well into 2023.

Financials

P&L

Consolidated Profit & Loss account (Rs Cr)	Mar '18	Mar '19	Mar '20	Mar '21	Mar '22
Income					
Sales Turnover	781.06	933.34	886.83	819.38	783.26
Excise Duty	3.36	0	0	0	0
Net Sales	777.7	933.34	886.83	819.38	783.26
Other Income	-2.09	-15.85	0.77	3.95	-54.91
Stock Adjustments	8.18	-1.21	6.54	-17.9	4.54
Total Income	783.79	916.28	894.14	805.43	732.89
Expenditure					
Raw Materials	341.62	382.56	362.06	327.52	306.5
Power & Fuel Cost	7.22	5.67	6.09	5.37	5.55
Employee Cost	290.51	328.48	325.66	301.84	319.49
Miscellaneous Expenses	106.7	108.64	97.98	75.28	78.7
Total Expenses	746.05	825.35	791.79	710.01	710.24
Operating Profit	39.83	106.78	101.58	91.47	77.56
PBDIT	37.74	90.93	102.35	95.42	22.65
Interest	21.8	34.92	36.82	29.52	26.35
PBDT	15.94	56.01	65.53	65.9	-3.7
Depreciation	28.19	27.84	41.39	45.3	43.19
Profit Before Tax	-12.25	28.17	24.14	20.6	-46.89
PBT (Post Extra-ord Items)	-12.25	28.17	24.14	20.6	-46.89
Tax	0.98	-0.26	7.38	7.39	1.26
Reported Net Profit	-17.94	29.53	20.39	18.23	-25.97
Earning Per Share (Rs)	-13.94	22.93	15.83	14.15	-20.15

Balance Sheet

Consolidated Balance Sheet (Rs Cr)	Mar '18	Mar '19	Mar '20	Mar '21	Mar '22
Sources Of Funds					
Total Share Capital	12.87	12.88	12.89	12.89	12.89
Equity Share Capital	12.87	12.88	12.89	12.89	12.89
Reserves	177.17	206.14	192.25	210.2	191.08
Networth	190.04	219.02	205.14	223.09	203.97
Secured Loans	314.1	314.65	272.12	287.38	272.6
Unsecured Loans	48.08	0	0	0	0
Total Debt	362.18	314.65	272.12	287.38	272.6
Minority Interest	26.06	24.72	24.83	17.04	-5.45
Total Liabilities	578.28	558.39	502.09	527.51	471.12
Application Of Funds					
Gross Block	282.88	255.41	323.12	336.31	341.27
Less: Accum. Depreciation	44.28	50.63	66.63	83.75	101.94
Net Block	238.6	204.78	256.49	252.56	239.33
Capital Work in Progress	26.59	13.86	11.42	19.21	12.02
Investments	14.44	12.05	40.1	48.79	7.29
Inventories	269.7	236.9	235.79	194.19	224.83
Sundry Debtors	239.95	274.28	248.91	216.12	199.28
Cash and Bank Balance	35.61	29.16	23.31	59.86	57.41
Total Current Assets	545.26	540.34	508.01	470.17	481.52
Loans and Advances	248.5	325.05	261.16	189.74	182.81
Total CA, Loans & Advances	793.76	865.39	769.17	659.91	664.33
Current Liabilities	458.72	525.66	563.96	445.74	417.35
Provisions	36.39	12.02	11.13	7.23	34.49
Total CL & Provisions	495.11	537.68	575.09	452.97	451.84
Net Current Assets	298.65	327.71	194.08	206.94	212.49
Total Assets	578.28	558.4	502.09	527.5	471.13

Cash Flow Statement

Consolidated Cash Flow Statement (Rs Cr)	Mar '18	Mar '19	Mar '20	Mar '21	Mar '22
Net Profit Before Tax	-13.55	33.68	23.49	19.43	-52.2
Net Cash From Operating Activities	-26.78	50.5	109.26	80.86	103.49
Net Cash (used in)/from	-32.51	-21.73	-11.56	11.95	-14.93
Investing Activities					
Net Cash (used in)/from Financing Activities	66.33	-32.58	-102.13	-66.23	-81.18
Net (decrease)/increase In Cash and Cash Equivalents	8.07	-4.4	-3.72	27.55	6.9
Opening Cash & Cash Equivalents	13.66	21.73	17.33	13.6	41.15
Closing Cash & Cash Equivalents	21.73	17.33	13.6	41.15	48.04

Key Financial ratio's

Consolidated Key Financial Ratios	Mar '18	Mar '19	Mar '20	Mar '21	Mar '22
Operating Profit Per Share (Rs)	30.96	82.9	78.84	71	60.2
Net Operating Profit Per Share (Rs)	604.29	724.58	688.27	635.93	607.89
Operating Profit Margin(%)	5.12	11.44	11.45	11.16	9.9
Profit Before Interest And Tax Margin(%)	1.47	8.42	6.69	5.6	4.36
Gross Profit Margin(%)	1.49	8.45	6.78	5.63	4.38
Cash Profit Margin(%)	3.81	8.13	7.69	7.09	6.93
Net Profit Margin(%)	-2.43	3.02	2.24	2.09	-3.89
Return On Capital Employed(%)	4.47	15.56	15.08	9.79	8.19
Return On Net Worth(%)	-9.97	12.88	9.71	7.69	-14.97
Return on Assets Including Revaluations	167.91	189.23	178.48	186.36	154.07
Return on Long Term Funds(%)	8.67	27.21	26.19	15.06	13.68
Current Ratio	0.77	0.87	0.78	0.81	0.8
Quick Ratio	1.06	1.16	0.92	1.02	0.97
Debt Equity Ratio	1.91	1.44	1.33	1.29	1.34
Long Term Debt Equity Ratio	0.5	0.39	0.34	0.49	0.4
Interest Cover	1.13	2.38	1.96	1.69	1.48
Total Debt to Owners Fund	1.91	1.44	1.33	1.29	1.34
Financial Charges Coverage Ratio	2.43	3.18	3.08	3.23	3.12
Financial Charges Coverage Ratio Post Tax	1.42	2.61	2.67	3.12	1.48
Inventory Turnover Ratio	2.9	3.94	3.76	4.22	3.48
Debtors Turnover Ratio	3.64	3.63	3.39	3.52	3.77
Investments Turnover Ratio	1.41	1.75	1.86	1.61	1.64
Fixed Assets Turnover Ratio	4.67	5.7	3.73	3.18	2.99
Asset Turnover Ratio	1.47	1.64	1.67	1.59	1.57

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations)

Diwakar Prasad Vyas ("Research Analyst") is registered with SEBI as Research Analyst with Registration No. INH100005677. The research analyst got its SEBI registration on February 16, 2018 and is engaged in research and recommendation Services. The focus of Research Analyst is to provide research and recommendations services to the clients. Analyst aligns its interests with those of the client and seeks to provide the best suited services.

- Research Analyst have no material adverse disciplinary history as on the date of publication of this report.
- Research Analyst has no associates
- Research Analysts or its employee or its associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report.
- Research Analysts or its employee or its associates does not have any financial interest in the subject company.
- Research Analysts or its employee or its associates have no actual or potential conflicts of interest arising from any connection to or association with any issuer of products/ securities, including any material information or facts that might compromise its objectivity or independence in the carrying on of recommendation services at the time of publication of the research report.
- Research Analysts or its employee or its associates have not received any kind of remuneration or consideration or compensation form the subject company or from anyone in connection with the research report in the past twelve months.
- The subject company was not a client of Research Analyst during twelve months preceding the date of distribution of the research report.
- Research Analysts or its employee or its associates have not served as an officer, director or employee of the subject company.
- Research Analysts or its employee or its associates have not been engaged in market making activity of the subject company

Disclaimer:

This report has been prepared by Research Analyst and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice.

Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment.

The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. Research Analyst is not obliged to update this report for such changes. Research Analyst has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject Research Analyst or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with Research Analyst.

Research Analyst do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report.



Page Intentionally Left Blank