Ref: CEL/NSEBSE/CR/19052021 19th May, 2021

To,

Listing Department National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051	Department of Corporate Services - Listing BSE Limited P. J. Towers, Dalal Street, Mumbai – 400 001

Re: Scrip Symbol: CENTUM/ Scrip Code: 517544

Dear Sir/ Madam,

Sub: Review of Credit Rating – Regulation 30(4) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

This is to inform you that CARE Ratings Limited has reviewed the credit ratings of the Company as per the table detailed below:

Total Bank Facilities Rated	Rs.355.7 Crores
Long Term Bank Facilities	CARE BBB; Stable (Triple B; Outlook: Stable)
Long Term/ Short Term Bank Facilities	CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)

We are enclosing herewith a copy of the review letter received from CARE Ratings Limited.

This disclosure is pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Yours faithfully,
For **Centum Electronics Limited**

NAGARAJ K V Digitally signed by NAGARAJ K V Date: 2021.05.19 14:32:55 +05'30'

Nagaraj K V
Company Secretary & Compliance Officer

Encl: as above

Centum Electronics Limited

May 18, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	196.70	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term/Short Term Bank Facilities	159.00	CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Assigned
Total	**355.70 (Rs. Three Hundred Fifty-Five Crore and Seventy Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Centum Electronics Limited (CEL) takes into account long track of operations of the company and extensive experience of the promoters in the industry which has helped the company in establishing relationship with reputed clientele from various industries ensuring repeated orders. The rating also positively takes note of satisfactory order book position, improvement in operating cycle with realisation of significant receivables during FY21 and above average financial risk profile marked by stable income and satisfactory gearing levels witnessed after weak performance in FY18. These rating strengths are partially offset by its working capital-intensive nature of operations which involves dealing with govt. bodies. The rating also takes note of investment in loss making subsidiary, Centum Adetel Group S.A. (CAG)turnaround of which may take more than envisaged time due to Covid-19. Company's ability to turn its subsidiary into self-sustainable operations will be a key monitorable. Further, company's ability to manage its operations under current scenario of shortage of semiconductors would also be important from credit perspective.

Rating Sensitivities

Positive factors- *Factors that could lead to positive rating action/ upgrade*

Increase in scale of operations while maintaining PBDIT margin of more than 15% and overall gearing less than 1.25x.

Improvement in operating cycle to less than 180 days.

Negative factors- *Factors that could lead to negative rating action/ downgrade*

Delay in turnaround of CAG's operations leading to support from CEL to CAG.

Decline in profitability margins to below 12% or increase in overall gearing beyond 1.75x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters and established track record of the company

Mr. Apparao V Mallavarapu Rao, CMD, has more than three decades of experience in managing Centum Electronics Limited business. CEL is engaged in the business of design and manufacturing high end electronics modules, systems and subsystems since 1994. He has initiated and successfully managed joint ventures with several multi- national companies. He is further supported by his son Mr. Nikhil Mallavarapu (Executive Director) and his wife Dr. Swarnalatha Mallavarapu (Non-Executive Director). The Company has high level of Corporate governance with 6 independent directors and support of managerial team with vast experience in the field of Electronics system design and manufacturing.

Diversified product and revenue mix across different geographies and industries

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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.

Established relationship with customers resulting in repeat orders and comfortable order book position
CEL has a comfortable order book position of more than is 1.5 times of TOI (Total Operating Income) of FY20 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.

Above average financial profile marked by satisfactory coverage indicators
Company's financial risk profile is marked by stable profitability margins except for FY18, satisfactory capital structure and coverage indicators. Revenue of the Company have been growing for the last 5-6 years except for FY18 when it declined by 8.6% leading to company incurring losses. Decline in revenue in FY18 was on account of delay in off-take of one of the major Defence orders under its SEBU segment as well as increased lead time in supply of semiconductors due to its shortage.
Nevertheless, the Company registered 39.47% growth in its TOI during FY19 as against FY18 with growth witnessed in both EMS and SEBU segments. Marginal decline in revenue during FY20 was due to impact of Covid-19 when the company could not raise bills during last fortnight of March 2020. Profitability margins (PAT/TOI) of 5.15% in FY20. There was High profits during FY19 was due to exceptional income of Rs. 32.8 crore earned during the year by divesting its entire 51% stake in Centum Rakon India Private Limited, a joint venture entity and realized a profit of Rs. 32.8 crore (before tax) (Rs. 25.7 crore, net of tax) on such sale of shares. Company's overall gearing is also improving from FY18 due to profits and better working capital management.

Key Rating Weaknesses
Working capital intensive nature of operations especially in SEBU division which involves dealing with government bodies.
Company's business operations are working capital intensive considering long gestation period from winning to execution of order. There was stretch in inventory from FY18 on account of pile up of inventory owing to delay in off-take of a major Defence order. However, the same was resolved. The company has taken conscious steps of invoicing raw material back to client in case of order got cancelled. Receivable days increased in March 20 due to delays in payments received owing to Covid-19. The situation however improved subsequently resulted in reduction in receivables by more than half as on March 31, 2021 as against March 31, 2020. CEL's ability to maintain its satisfactory receivable position on a sustained basis remains to be seen.

Investment in loss making subsidiary but no guarantee/ commitment by CEL towards debt servicing

CEL took over Adetel in 2016, which was stressed asset and renamed it as Centum Adetel group (CAG). At the time of acquisition, Adetel had two divisions a) Energy division and b) Engineering division. Energy division was incurring losses as finding market was challenge and was sold off during FY20. CAG's operations were envisaged to be profitable subsequently but was impacted by Covid-19. Considering high debt repayments in near to medium term, it is important for CAG's operations to turnaround as per envisaged timelines. 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.

Liquidity: Adequate

Liquidity is adequate with consistent improvement in receivables position which had elongated during FY19 and FY20 translating into positive cashflow from operations. Company also had unencumbered cash and bank balance of Rs.15.7 crore as on March 31, 2021. CEL's GCA has been sufficiently higher vis-à-vis its debt repayment obligations and is expected to remain so on back of its order book. Company has not availed covid-19 moratorium under RBI's Covid-19 regulatory package.

Analytical approach: Standalone along with factoring support to subsidiary, CAG.

Applicable Criteria

CARE's methodology for manufacturing companies
CARE's methodology for Short-term Instruments
Criteria on assigning Outlook to Credit Ratings
Rating Methodology: Consolidation and factoring linkages in Ratings
CARE's policy on Default Recognition
Financial Ratios-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector entities

About the Company

Centum Electronics Limited (CEL) founded in 1994 in Bangalore by Mr. Apparao V Mallavarapu (Rao), a first-generation entrepreneur. Company is in Electronic system design and manufacturing, manufactures high end electronics modules, sub-systems and systems used in the aerospace, defence, and industrial electronic sectors.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	501.46	486.36
PBILDT	72.43	75.26
PAT	58.00	25.04
Overall gearing (times) @	1.54	1.32
Interest coverage (times)	2.80	2.86

A: Audited| @including mobilization advance as debt.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	159.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT-Bank Guarantees	-	-	-	-	196.70	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	159.00	CARE BBB; Stable / CARE A3+	-	-	-	-
2.	Non-fund-based - LT-Bank Guarantees	LT	196.70	CARE BBB; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument – Term Loan	Detailed explanation
A. Financial covenants	• External debt/EBIDTA <3.50X
B. Non financial covenants	• Total receivables from Centum Adetel not to exceed 15% of total receivables. • Reduction/ change in promoter shareholding below 50%/change in promoter directorship resulting in change in management control shall be undertaken with prior permission of the Bank. • 50% of the enhanced BG Limit shall be disbursed only against formation of consortium and tie-up of entire additional Bank Guarantee requirement of Rs. 139.30 Cr.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple

2.	Non-fund-based - LT-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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