

Centum Electronics Ltd.

HOLD

Choice

In Q2FY25, CEL reported decent numbers with disappointing bottom, revenue for the quarter grew by 5.6%/5.2% YoY/QoQ to stood Rs 2512mn vs our est. Rs 2507mn vs Rs 2378mn in last year same period due to delayed in execution. Gross Profit came at Rs 1291mn vs our estimates Rs 1413mn, increased by +0.2% YoY/+2% QoQ, and gross margin came at 51.4% vs our est. 56.3%, (contracted by 280bps YoY), Due to high raw material cost. EBIDTA stood at Rs 203mn (increased by 18% YoY) vs our estimates Rs 227mn vs Rs 172mn in Q2FY24. Margin came at 8.1% vs our estimates 9.0% (expanded 86bps/157bps YoY/QoQ) due to cost control measures. APAT came at Rs -3mn vs our estimates Rs 25mn vs Rs -46mn last year same period, led by higher interest cost.

- **Established market position with improved orderbook:** CEL has established a strong market position across various sectors. The company's products are used in critical sectors like space and defence, showcasing its technical expertise in high-complexity areas. CEL offers a diverse product and revenue mix across industries such as defence, aerospace, space, industrial, medical, and communications, providing customized product design, manufacturing services, and turnkey solutions for mission-critical applications. CEL's broad industry presence also helps mitigate the cyclical risks inherent in specific sectors. The company current orderbook stood INR 1,772cr which translate to 1.6x of FY24 revenue. Management expects based on the current order book and order pipeline, the company could grow in the range of 18-20% with a margin band of 10-11% in FY25. Further management expects standalone margin to improve further and subsidiary performance to also improve by cost cutting measures.
- **Restructuring of French subsidiary:** Revenue contribution from the French subsidiary is roughly around 40-45% on console basis. To enhance the competitiveness of French and Canadian subsidiaries, the company has strategically transferred most of the test bench activities to India over the past year. Leveraging Indian talent and cost advantages. Furthermore, the company has successfully completed the transfer of production of Canadian subsidiary's products to India, allowing for better margin realization. Management expects material benefits of restructuring to start reflecting from H2FY25. We expect margin on console basis to improve from 7.9% in FY24 to 10.6% in FY27E.
- **View and valuation:** We remain positive on the stock led by 1) Gradual improvement in France subsidiary's performance due to restructuring effort, 2) focus on high margin segment BTS solution and to offer one stop solution to various industry such as defence, aerospace, space, industrial, medical and communications industry, 3) prefer partner for clients like Space Application Centre, ISRO, Defence Research and Development Organization (DRDO), ABB, Thales, Rafale, and 4) Upcoming opportunity in SSLV launches. We expect CEL to register a healthy revenue/EBIDTA growth of 19/32 CAGR over FY24-27E. We ascribe a multiple of **35x on FY27E EPS** to arrive at a **TP of Rs.1,826** with of "HOLD" rating.

Quarterly performance

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales (incl OOI)	2,598	2,482	4.7	2,459	5.7
Material Exp	1,307	1,194	9.5	1,193	9.6
Gross Profit	1,291	1,289	0.2	1,265	2.0
Employee Exp	852	867	(1.6)	877	(2.9)
Other Exp	236	251	(5.8)	233	1.4
EBITDA	203	172	18.3	155	30.6
Depreciation	112	111	0.4	123	(8.9)
EBIT	91	60	51.3	33	178.3
Other Income	15	10	54.6	13	14.8
Interest Cost	77	91	(15.5)	76	1.3
PBT	29	-21	(236.7)	-30	NA
EO Items (Adj For Tax)	-	-	-	-	-
Tax	32	24	31.5	8	292.8
RPAT	-3	-46	(93.2)	-38	(91.9)
APAT	-3	-46	(93.2)	-38	(91.9)
Adj EPS (Rs)	-0.3	-3.5	(92.6)	-2.5	(89.4)

Margin Analysis	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Gross Margin (%)	49.7	51.9	(222.5)	51.5	(178.0)
Employee Exp. % of Sales	32.8	34.9	(211.0)	35.7	(288.4)
Other Op. Exp % of Sales	9.1	10.1	(101.1)	9.5	(38.4)
EBITDA Margin (%)	7.81	6.9	89.6	6.3	148.8
Tax Rate (%)	NA	-115.1	NA	NA	NA
APAT Margin (%)	-0.1	-1.8	NA	-1.6	144.3

Source: Company, CEBPL

	Nov 15 th , 2024
CMP (Rs)	1638
Target Price (Rs)	1826
Potential Up-side (%)	11.4

*CMP as on 14th Nov 2024

Company Info

BB Code	CTE IN EQUITY
ISIN	INE320B01020
Face Value (Rs.)	10.0
52 Week High (Rs.)	2097.1
52 Week Low (Rs.)	1345.1
Mkt Cap (Rs bn.)	21.1
Mkt Cap (\$ bn.)	0.25
Shares o/s (Mn.)	12.9
Adj. TTM EPS (Rs)	26.1
FY27E EPS (Rs)	52.1

Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	58.75	58.75	58.79
FII's	0.38	0.37	0.37
DII's	8.53	8.13	7.69
Public	32.35	32.76	33.15

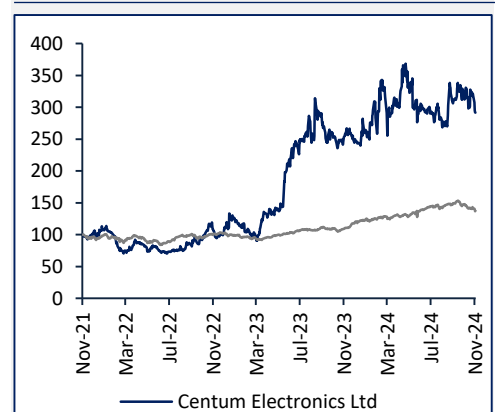
Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 200	37.2	35.5	25.9
CEL	191.6	178.7	14.7

Year end March (INR bn)

Particular	FY25E	FY26E	FY27E
Revenue	12.98	15.51	18.59
Gross Profit	7.24	8.73	10.47
EBITDA	1.30	1.59	1.97
EBITDA (%)	10.0	10.2	10.6
EPS (INR)	22.4	34.1	52.2

Rebased Price Performance



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Management Call - Highlights

- Revenue growth for the first half was 10% YoY, driven by strong performance in core segments, with expectations for further improvement in the second half of the year.
- The second half should see stronger margins, driven by higher deliveries to defense and space customers, alongside a better performance from EMS and subsidiaries.
- As of September 30, 2024, the order book stood at INR 1772 crores. This indicates a robust backlog of projects.
- There is a strong pipeline, particularly from domestic BTS customers in the defense sector, suggesting that future revenue growth will be supported by this growing demand.
- The company is well-positioned for growth in both BTS and EMS sectors.
- The company has set an 18-20% revenue growth target for FY25, which factors in the gross accounting for specific contracts, suggesting a strong second half.
- EBITDA margin for FY25 is expected to be in the range of 10-11%, reflecting the higher deliveries and better performance expected in the latter half of the year.
- EBITDA for FY25 the company is targeting INR 130 crores (excluding other income), indicating a stronger second-half performance.
- Employee costs have reduced YoY due to the implementation of voluntary retirement schemes (VRS) in the previous quarter, which helped optimize the workforce.
- The company is expecting an increase in working capital to support higher deliveries and a growing order book, indicating a need for more investment in day-to-day operations to support business growth.
- Capital expenditure (Capex) will also increase as the company invests in capacity expansion, particularly in the defense and space sectors, to support future growth.
- Standalone Business side the company is targeting 25%+ growth in the next couple of years, particularly driven by increased demand in defense, space, and EMS.
- subsidiary has been struggling, efforts are focused on improving its profitability, which might result in slower growth compared to the standalone business, but this will be compensated by stronger performance in the core business.
- Fundraise (INR 250 Crore) Purpose is the company is raising funds to maintain its growth trajectory of 20% over the next two years.
- The fundraise will support expansion and is expected to aid in achieving the targeted growth, though the exact revenue contribution from this fundraise will be evaluated as the plans unfold.
- The MOU signed with Indira Systems is still pending due to delays in decision-making from the government regarding budget allocations and commercial bid openings. The company is waiting for the final decision from the customer.
- Long-Term the company is aiming for 13-15% EBITDA margin in the next 2-3 years, with steady improvement over the medium term.
- For FY25, the revenue distribution is expected to be: BTS Approximately 25% of revenue. Engineering Services around 30%. EMS around 45%.
- The company expects to spend INR 100 crores on capital expenditures over the next two years, with around INR 50 crores per annum.
- The standalone tax rate is expected to remain around 25%. The subsidiary, which is currently in a loss position, will not incur taxes until it becomes profitable.
- Post Fundraise the company expects its debt levels to peak, and it should be able to reduce debt going forward. This will help maintain a healthy interest cost level, estimated to stay around INR 35-40 crores annually.
- The subsidiary is expected to become profitable in Q3 and Q4 FY25, though the contribution will be modest. The company anticipates full profitability from the subsidiary starting FY26.
- The company remains optimistic about future growth, driven by a strong order book and expanding opportunities, especially in defense, space, and EMS sectors.
- The second half of FY25 is expected to bring strong growth in both top-line and bottom-line performance, with an improving order pipeline.

Changes in Estimates

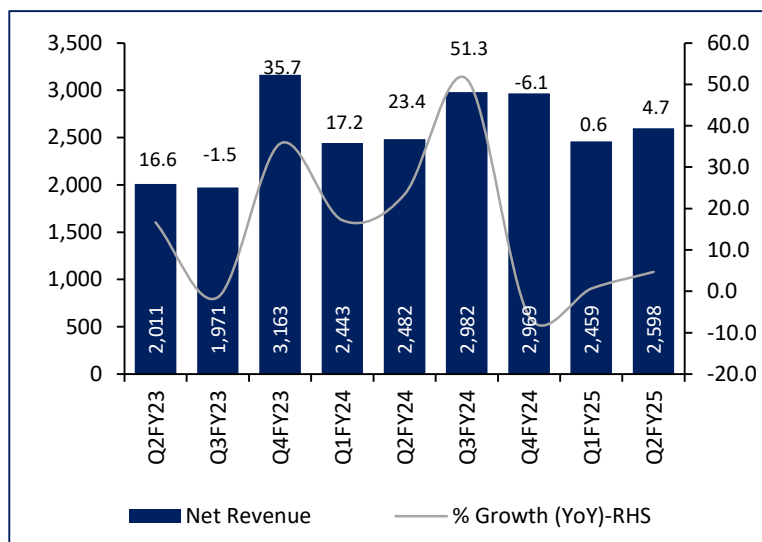
Particulars(Rs.Mn)	Actual	Choice Est.	Deviation(%)
Revenue	2,598	2,592	0.2
EBITDA	203	227	(10.5)
EBITDA Margins(%)	7.8	8.7	(93.5)bps
APAT	-3	25	NA

Source: Company, CEBPL

Income Statement (INR Mn.)	FY25E			FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	12,982	12,876	0.8	15,510	16,207	(4.3)	18,589	18,589	-
EBITDA	1,297	1,416	(8.4)	1,589	1,973	(19.5)	1,968	1,968	-
EBITDA margin(%)	10.0	11.0	(100.2)bps	10.2	12.2	(192.9)bps	10.6	10.6	-
APAT	309	396	(22.0)	465	694	(33.0)	703	703	-
EPS	22.4	28.4	(21.1)	34.1	50.7	(32.8)	52.2	52.2	-

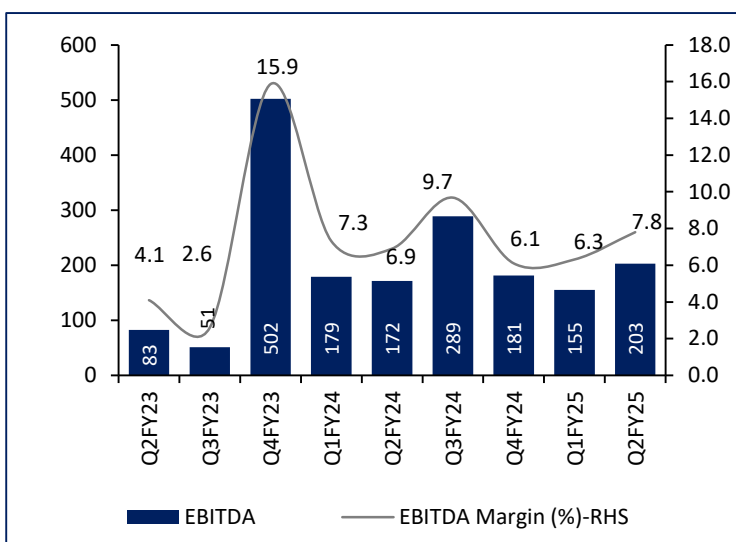
Source: Company, CEBPL

Revenue grew by 4.7% YoY



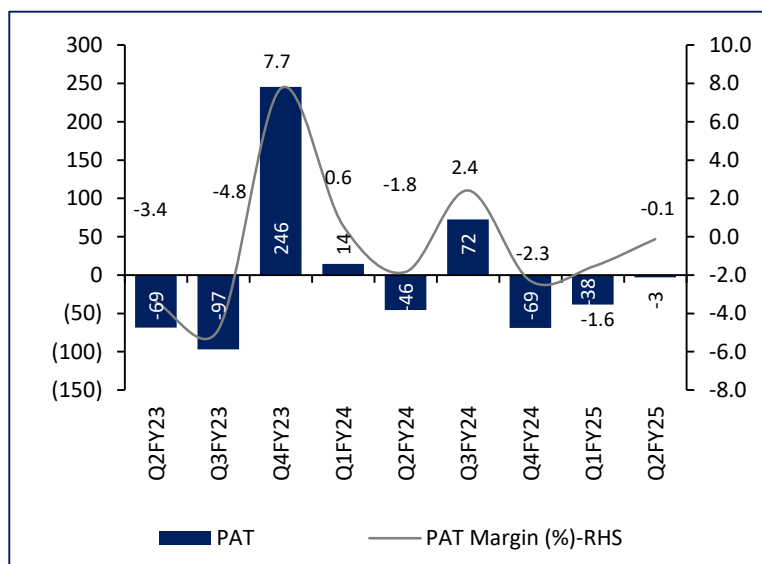
Source: Company, CEBPL

EBITDA Margin trend



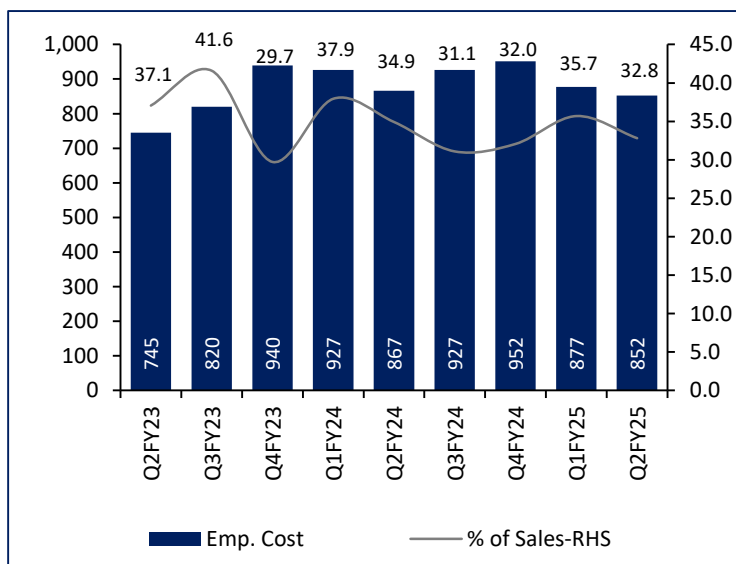
Source: Company, CEBPL

PAT Trend



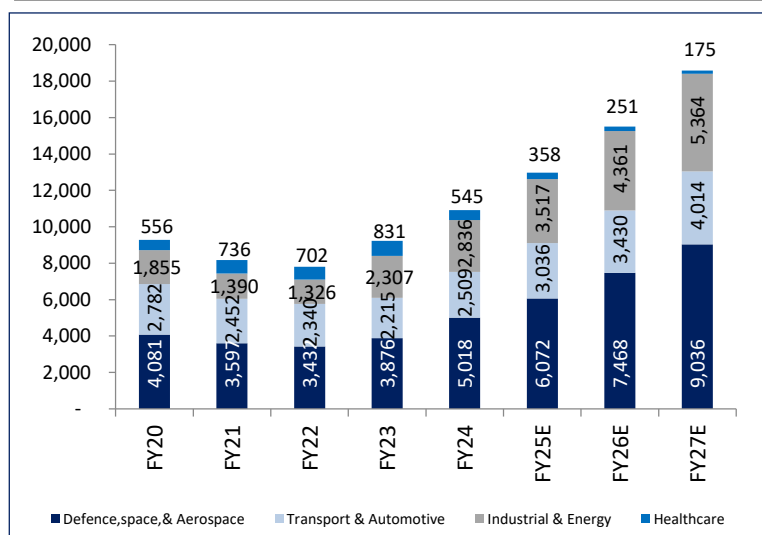
Source: Company, CMIE, CEBPL

Reduction in Emp. Cost would support margins further



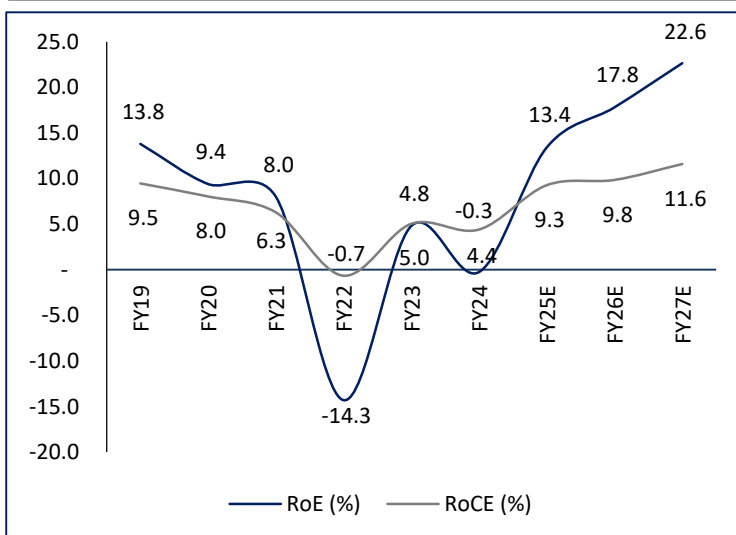
Source: Company, CEBPL

Revenue Mix (%)



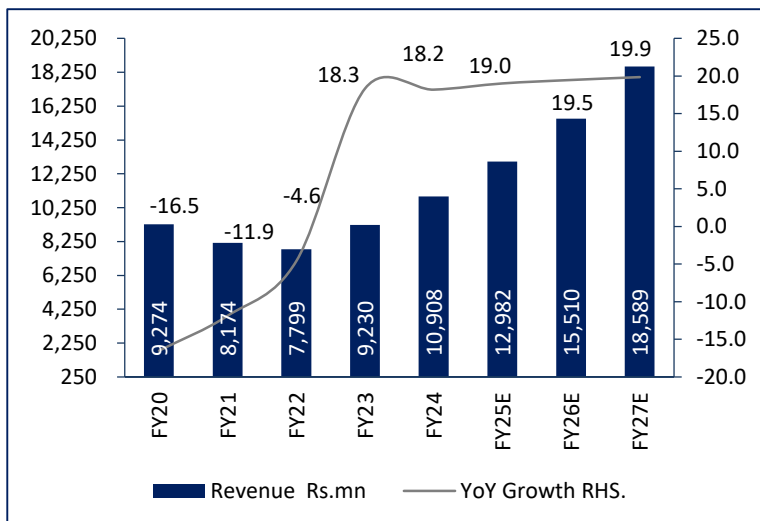
Source: Company, CMIE, CEBPL

ROE & ROCE



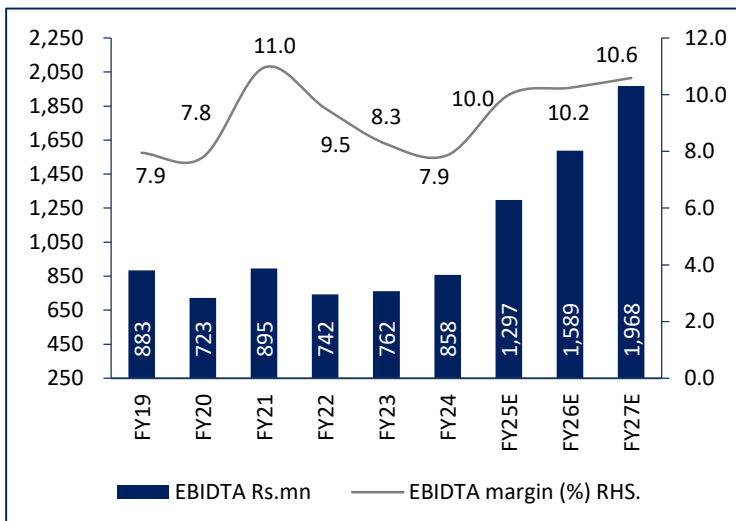
Source: Company, CMIE, CEBPL

Significant Revenue to grow over FY24-27E



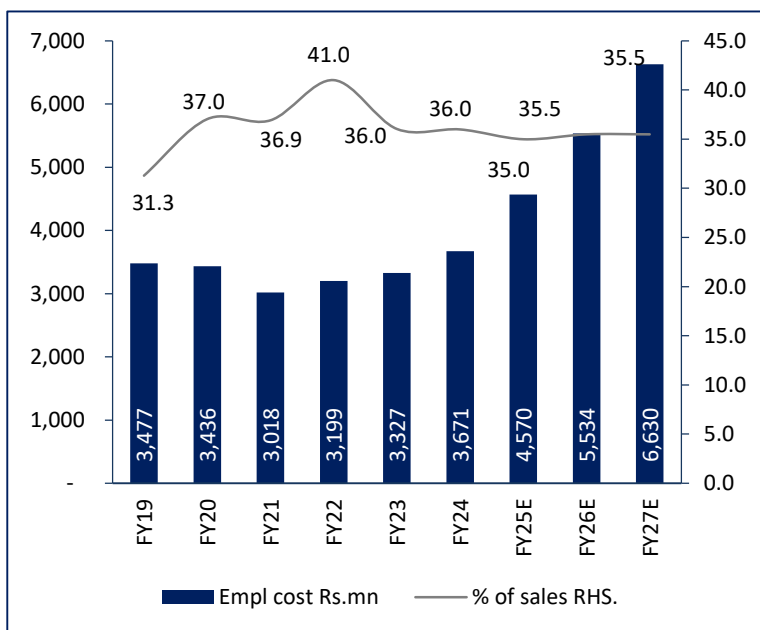
Source: Company, CEBPL

EBIDTA margin to improve led by better mix



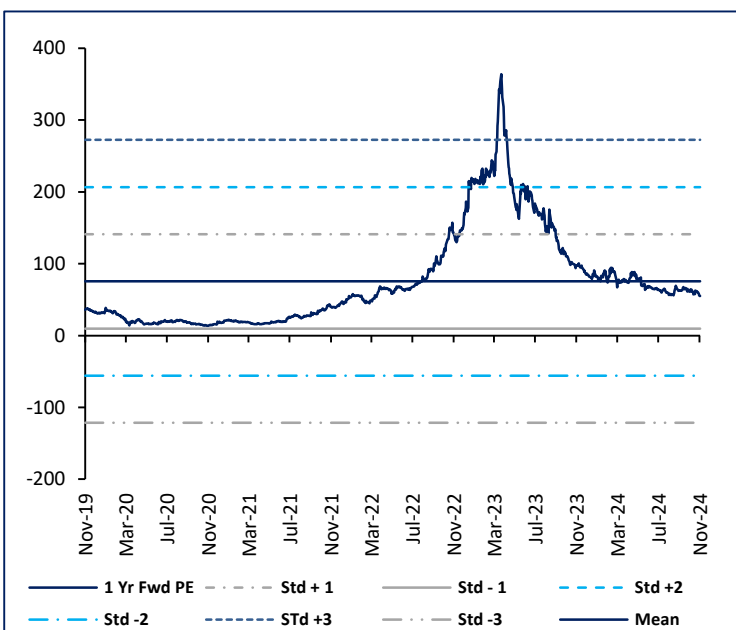
Source: Company, CEBPL

Emp. Cost Trend



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	9,230	10,908	12,982	15,510	18,589
Gross profit	5,078	5,653	7,238	8,728	10,465
EBITDA	762	858	1,297	1,589	1,968
Depreciation	438	453	491	514	536
EBIT	324	406	806	1,075	1,433
Interest expense	273	346	397	428	420
Other Income (Including EO Items)	59	68	74	79	86
EO Items	-	(49)	-	-	-
Reported PAT	67	(28)	309	465	703
Minority Interest	(33)	22	20	25	30
Adjusted PAT	99.5	(50)	289	440	673
EPS (Rs)	7.7	(0.4)	22.4	34.1	52.2
NOPAT	179	260	516	688	917

Balance sheet (Consolidated in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Net worth	2,107	2,033	2,277	2,665	3,277
Minority Interest	-	(66)	(66)	(66)	(66)
Deferred tax	(43)	5	5	5	5
Total debt	2,310	1,737	3,454	3,890	4,204
Other liabilities & provisions	562	1,164	1,164	1,164	1,164
Total Net Worth & liabilities	4,936	4,873	6,835	7,658	8,585
Net Fixed Assets	2,198	1,126	1,704	1,541	1,355
Capital Work in progress	54	3	150	200	201
Investments	96	85	130	465	558
Cash & bank balance	422	716	863	492	644
Loans & Advances & other assets	900	1,824	1,694	2,177	2,608
Net Current Assets	1,687	1,836	3,158	3,275	3,863
Total Assets	4,936	4,873	6,835	7,658	8,585
Capital Employed	4,417	3,770	5,732	6,555	7,481
Invested Capital	3,995	2,988	4,803	5,997	6,771
Net Debt	1,888	1,021	2,591	3,398	3,560
FCFF	491	2,807	(1,094)	700	1,182

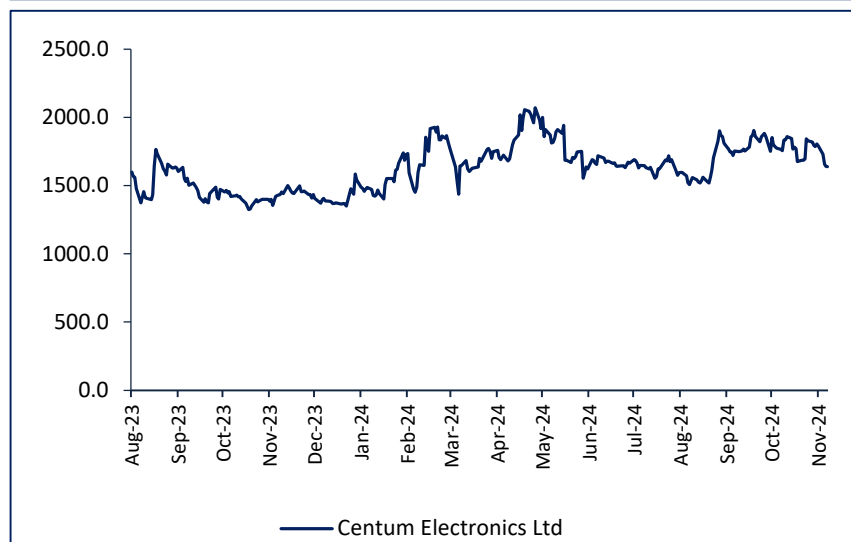
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	709	2,136	123	1,100	1,533
Capex	(218)	671	(1,216)	(400)	(351)
FCF	491	2,807	(1,094)	700	1,182
CFI	(247)	(440)	(1,012)	(804)	(697)
CFF	(596)	(1,448)	1,256	(70)	(197)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenue	18.3	18.2	19.0	19.5	19.9
EBITDA	2.6	12.6	51.1	22.5	23.9
PAT	(132.6)	(105.2)	NA	52.3	52.9
Margin ratios (%)					
EBITDA	8.3	7.9	10.0	10.2	10.6
PAT	1.1	(0.0)	2.2	2.8	3.6
Performance Ratios (%)					
OCF/EBITDA (X)	0.9	2.5	0.1	0.7	0.8
OCF/IC	17.8	71.5	2.6	18.3	22.6
RoE	4.7	(2.5)	12.7	16.5	20.5
ROCE	7.3	10.8	14.1	16.4	19.2
Turnover Ratios (Days)					
Inventory	103	100	103	110	111
Debtor	151	140	150	145	140
Payables (days)	83	80	70	70	71
Cash Conversion Cycle	50	95	65	65	63
Financial Stability ratios (x)					
Net debt to Equity	0.9	0.5	1.1	1.3	1.1
Net debt to EBITDA	2.5	1.2	2.0	2.1	1.8
Interest Cover	1.2	1.2	2.0	2.5	3.4
Valuation metrics					
Fully diluted shares (mn)	13	13	13	13	13
Price (Rs)	1639	1639	1639	1639	1639
Market Cap(Rs. Mn)	21,123	21,123	21,137	21,137	21,137
PE(x)	212	-4,062.1	73.2	48.0	31.4
EV (Rs.mn)	23,010	22,078	23,662	24,469	24,631
EV/EBITDA (x)	30	26	18	15	13
Book value (Rs/share)	163	158	177	207	254
Price to BV (x)	10.0	10.4	9.3	7.9	6.4
EV/OCF (x)	32	10	193	22	16

Source: Company, CEBPL

Historical recommendations and target price: Centum Electronics Limited



Centum Electronics Limited

1.	02-02-2024	OUTPERFORM,	Target Price Rs.2175
2.	25-05-2024	BUY,	Target Price Rs.1917
3.	13-08-2024	BUY,	Target Price Rs.1776
4.	14-11-2024	HOLD,	Target Price Rs.1826

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CHOICE RATING DISTRIBUTION & METHODOLOGY

BUY	The security is expected to generate greater than or = 15% over the next 24 months
HOLD	The security expected to show upside or downside returns by 14% to -5% overhead 24 months
SELL	The security expected to show Below -5% next 24 months

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