

## Centum Electronics Ltd.

February 19, 2025

CMP: INR 1,276 | Target Price: INR 845 | Potential Downside: 33.8%

SELL

Change in Estimates	✓✓
Change in Target Price	✓✓
Change in Recommendation	✓✓

## Company Info

BB Code	CTE IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	2,400/1,300
Mkt Cap (Bn)	INR 16.5 / \$ 0.19
Shares o/s (Mn)	12.9
3M Avg. Daily Volume	37,804

## Change in CEBPL Estimates

INR Bn	FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	12,003	15,510	(22.6)	13,204	18,589	(29.0)
EBITDA	1,006	1,589	(36.7)	1,338	1,968	(32.0)
EBITDAM %	8.4	10.2	(186)bps	10.1	10.6	(45)bps
PAT	164	465	(64.6)	420	703	(40.3)
EPS	17.6	34.1	(48.4)	32.6	52.2	(37.6)

## Actual vs CEBPL

INR Mn	Q3FY25A	CEBPL Est.	Dev. %
Revenue	2,813	3,505	(19.7)
EBITDA	193	438	(55.8)
EBITDAM %	6.9	12.5	(562)bps
PAT	(193)	149	NA

## Key Financials

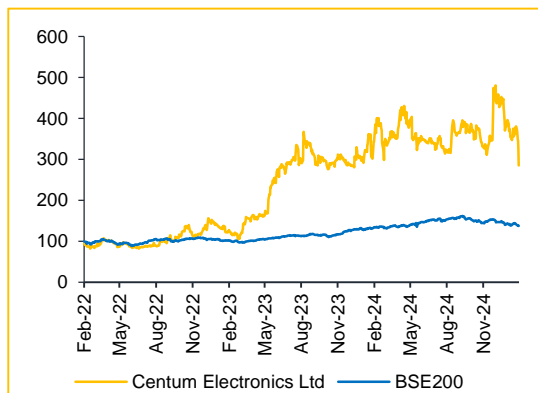
INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	9,230	10,908	11,166	12,003	13,204
YoY Growth (%)	18.3	18.2	2.4	7.5	10.0
EBITDA	762	858	795	1,006	1,338
EBITDAM (%)	8.3	7.9	7.1	8.4	10.1
Adjusted PAT	67	(27.6)	(157)	164	420
EPS	7.7	1.4	1.9	17.6	32.6
ROE (%)	4.7	(1.4)	(5.4)	5.6	17.1
ROCE (%)	7.3	10.8	9.1	12.8	18.2
PE(x)	165	920.3	665.7	72.1	39.0
Price to BV (x)	7.8	8.1	8.8	8.4	7.2

## Shareholding Pattern (%)

	Dec-24	Sep-24	Jun-24
Promoters	58.75	58.75	58.75
Fills	1.03	0.38	0.37
DlIs	8.06	8.53	8.13
Public	32.16	32.35	32.76

## Relative Performance (%)

YTD	3Yr.	2Yr.	1Yr.
BSE 200	171.5	166.5	103.2
Centum Electronics Ltd	185.2	123.7	-17.0



Putta Ravi Kumar

Email: ravi.putta@choiceindia.com

Ph: +91 22 6707 9908

## Weak Q3FY25 results, Loss making subsidiaries raises concerns.

- Consolidated Revenue for Q3FY25 came at INR 2,755 Mn (vs CEBPL Est. of INR 3,505 Mn), down 4.5% YoY and up 9.6% QoQ.
- Consolidated EBITDA for Q3FY25 came at INR 193 Mn (vs CEBPL Est. INR 438 Mn), down 33.0% YoY and down 5.0% QoQ. The EBITDA Margin came at 6.9%, contracted 300 bps YoY and contracted 105 bps QoQ (vs CEBPL Est. of 12.5%).
- Consolidated PAT for Q3FY25 came INR -193 Mn (vs CEBPL Est. of INR 149 Mn), down 366.2% YoY and. PAT Margin decreased by 952 bps YoY, reaching -7.0% (vs CEBPL Est. of 4.2%).
- Standalone Revenue for Q3FY25 came at INR 1,807 Mn, up 2.5% YoY and up 8.4% QoQ.
- Standalone EBITDA for Q3FY25 came at INR 224 Mn, down 4.9% YoY and up 3.4% QoQ. The EBITDA margin came at 11.8%, contracted 92 bps YoY and contracted 51 bps QoQ.
- Standalone PAT for Q3FY25 came INR 108 Mn, down 15.7% YoY and. PAT Margin decreased by 109 bps YoY, reaching 5.0%.

CTE's recent performance has raised significant concerns. Over the past few quarters, the company has struggled with its loss-making overseas subsidiary, leading to an inability to maintain consolidated profitability. Losses from the Canadian subsidiary and delays in the French project have further impacted profitability. We remain pessimistic about the company's near-term prospects, as management has not provided clear direction, and as per the management guidance resolution of issues with the Canadian subsidiary is expected by end of this year.

On a standalone basis, the company has performed reasonably well. The management has guided EBITDA of INR 1,000 Mn at the standalone level, but our projections suggest that this target may only be achievable in FY27E. Additionally, considering the current situation, we have reduced the EV/EBITDA Multiples. Based on these factors, we have revised our projections accordingly. While we are closely monitoring the situation, the growth trajectory in the short to medium term remains uncertain.

**View & Valuation:** Despite a moderate order book of INR 16.7 billion (~1.5x TTM sales), we remain cautious about CTE's near-term performance due to ongoing challenges with its loss-making subsidiary. We project standalone EBITDA of INR 1,000 Mn in FY27E. Given these factors, we downgrade our rating from "HOLD" to "SELL" and revise our TP to INR 845, implying a valuation of 12.0x EV/EBITDA of FY27E. We will continue to monitor the company's performance, and any improvement in resolving the Canadian subsidiary's issues may lead to a reassessment of our target price and valuation multiples.

Particulars	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net Sales (incl OI)	2,813	2,982	(5.7)	2,598	8.3
Material Exp	1,521	1,475	3.1	1,307	16.4
Gross Profit	1,292	1,507	(14.2)	1,291	0.1
Employee Exp	882	927	(4.8)	852	3.5
Other Exp	217	291	(25.6)	236	(8.2)
EBITDA	193	289	(33.0)	203	(4.6)
Depreciation	106	115	(8.3)	112	(5.4)
EBIT	88	174	(49.5)	91	(3.6)
Other Income	23	11	116.0	15	57.5
Interest Cost	79	77	2.1	77	2.7
PBT	32	107	(70.1)	29	NA
EO Items	-193	-	-	-	-
Tax	32	35	(8.0)	32	(0.3)
RPAT	-193	72	(366.2)	-3	NA
APAT	-193	72	(366.2)	-3	NA
Adj EPS (INR)	-12.8	5.6	(327.6)	-0.3	NA

Margin Analysis	Q3FY25	Q3FY24	YoY (bps)	Q2FY25	QoQ (bps)
Gross Margin (%)	45.9	50.5	(458.7)	49.7	(375.2)
Emp. % of Sales	31.4	31.1	28.7	32.8	(143.7)
Other % of Sales	7.7	9.8	(206.3)	9.1	(138.6)
EBITDA Margin (%)	6.88	9.7	(281.2)	7.8	(92.9)
Tax Rate (%)	NA	32.4	NA	NA	NA
APAT Margin (%)	-6.9	2.4	NA	-0.1	(673.9)

## Management Call - Highlights

Operational Performance: -

- Standalone business showing resilience.
- Consolidated performance hindered by the Canadian subsidiary.
- Losses in Canada due to high costs and unprofitable projects.
- French subsidiary close to breaking even but facing project delays.

Future Outlook: -

- Standalone business expected to maintain healthy growth.
- Aiming for 15%+ growth rate in standalone operations next year.
- Q4 FY25 anticipated to see better revenue and margins as more BTS revenue is realized.
- Targeting a 6-7% EBITDA margin for the subsidiary in the long term.
- Anticipate normalization of accounting differences by FY26.

Space Business: -

- Poised for substantial growth in the space economy.
- Secured a significant order for three satellite constellations.
- Anticipating repeat orders and exploring new opportunities in satellite production.
- Significant prospects from ISRO expected in the coming two years.

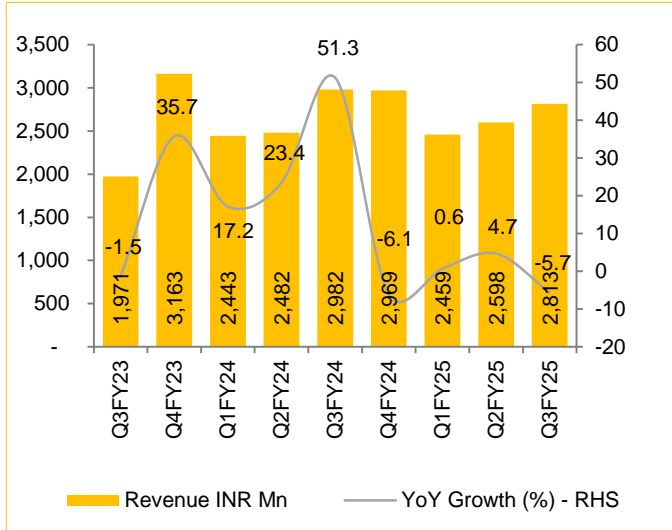
On Going Concerns: -

- Losses in the Canadian subsidiary affect overall performance.
- Uncertain future for Canadian operations.
- French project delays impacting profitability.

Other Important Points: -

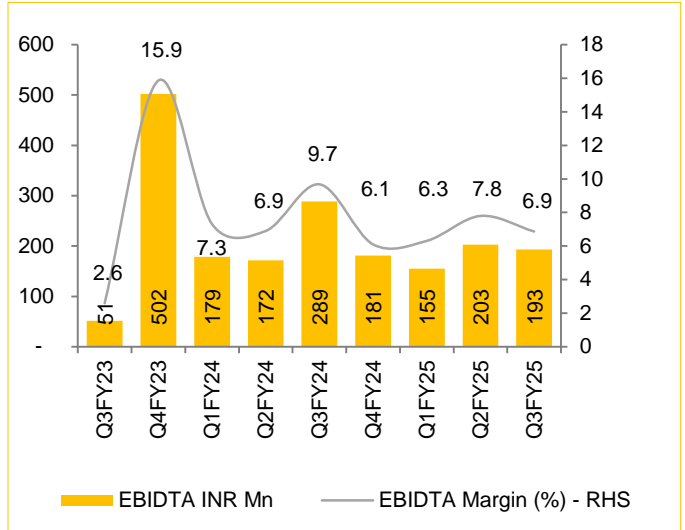
- Order book at INR 16,749 million as of December 31, 2024.
- Recognized with an Export Award for electronic hardware exports in FY24.
- Exploring fundraising options to support growth.
- Strategic decisions regarding the Canadian subsidiary will be made soon.
- The company is actively evaluating options and poised for strategic growth in the coming years, despite current challenges.

**Net revenue de-grew on YoY basis**



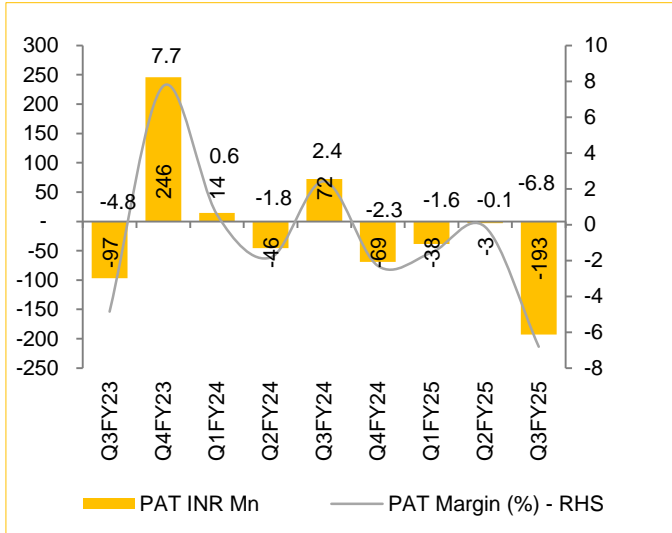
Source: Company, CEBPL

**EBITDAM remains under pressure unfavorable mix**



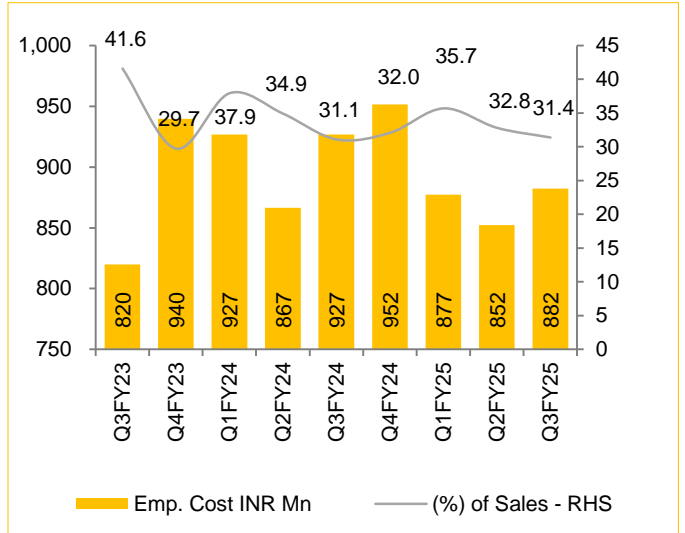
Source: Company, CEBPL

**Healthy PAT de-grew significantly**



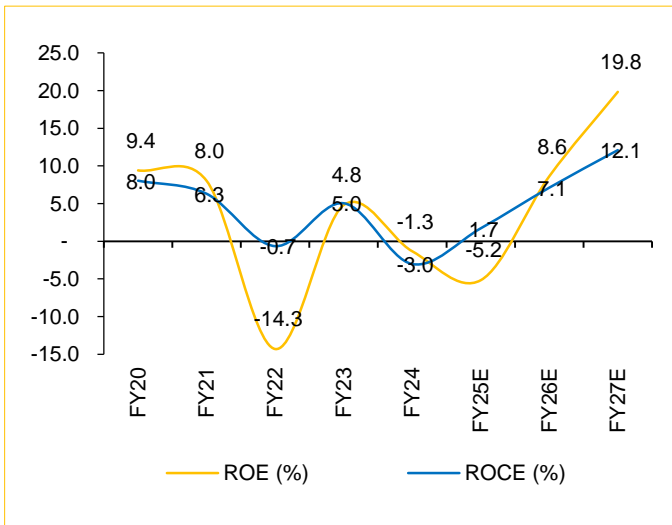
Source: Company, CEBPL

**Employee costs trend**



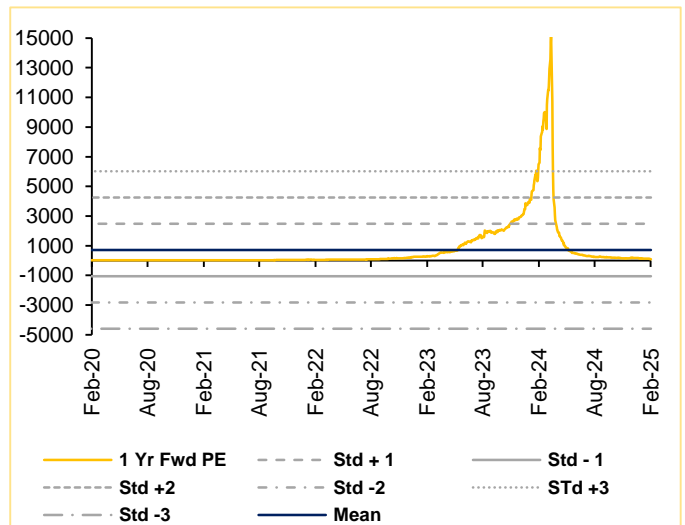
Source: Company, CEBPL

**ROE & ROCE**



Source: Company, CEBPL

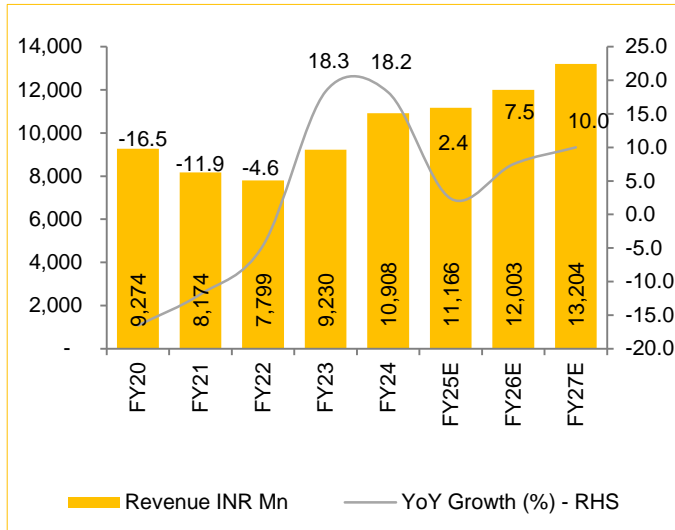
**One year forward PE band**



Source: Company, CEBPL

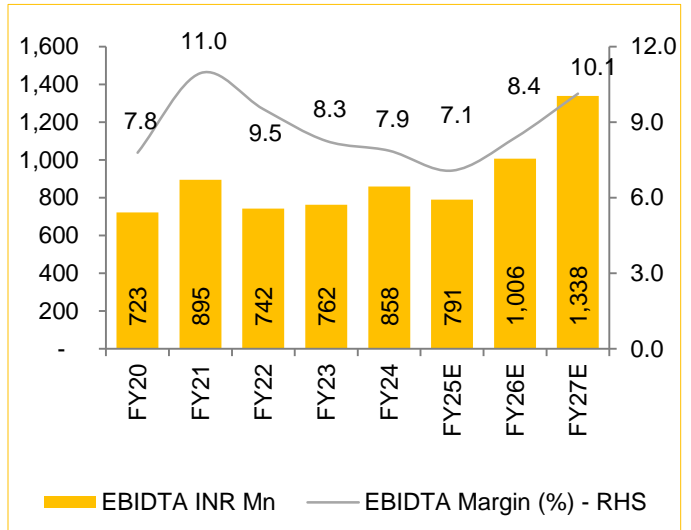
\*All figures are in INR Million

Revenue expected to grow 5.0% CAGR FY24-27E



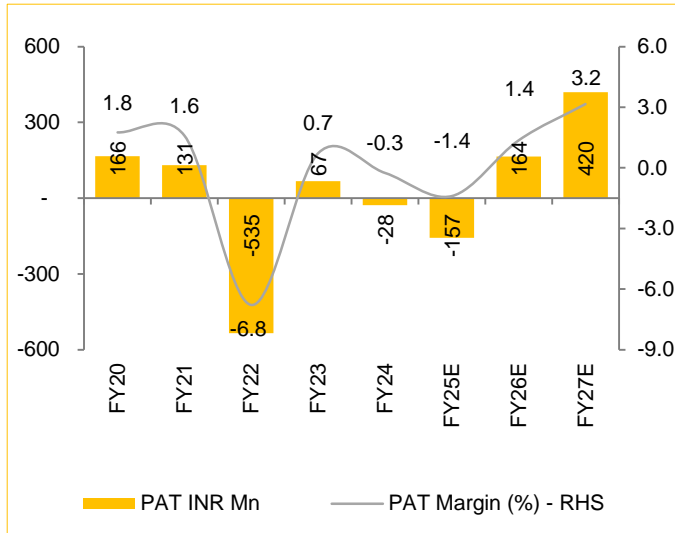
Source: Company, CEBPL

EBITDA Margins led by better mix



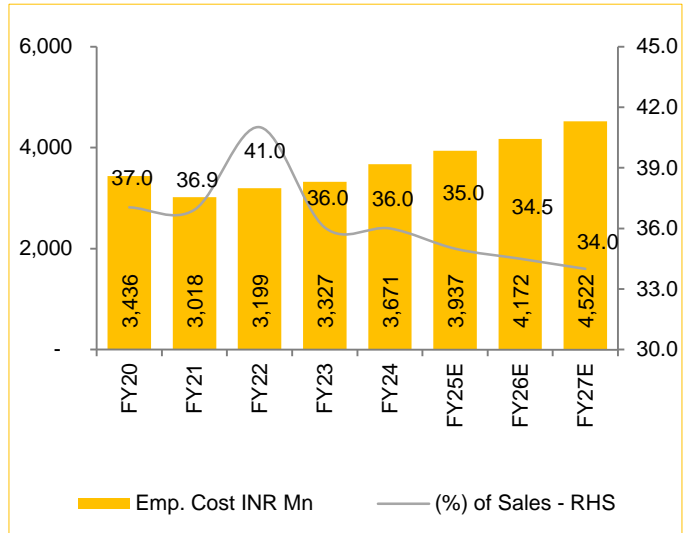
Source: Company, CEBPL

Uncertain PAT Growth



Source: Company, CEBPL

Emp. Cost Trend



Source: Company, CEBPL

\*All figures are in INR Million

## Income Statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	9,230	10,908	11,166	12,003	13,204
Gross Profit	5,078	5,653	5,880	6,441	7,153
EBITDA	762	858	795	1,006	1,338
Depreciation	438	453	452	516	580
EBIT	324	406	343	490	759
Interest Expense	273	346	284	284	284
EO items	-	(49)	(193)	(97)	-
Other Income	59	68	82	88	95
Reported PAT	100	-28	-101	110	391
EPS	7.7	1.4	1.9	17.6	32.6
NOPAT	179	-142	223	319	531

Source: Company, CEBPL

## Balance Sheet (Consolidated in INR Mn)

Balance Sheet	FY23	FY24	FY25E	FY26E	FY27E
Net Worth	2,107	2,033	1,867	1,954	2,284
Total Debt	2,310	1,737	1,890	1,890	1,890
Other Liabilities & Provisions	562	1,164	1,164	1,164	1,164
<b>Total Net Worth &amp; Liabilities</b>	<b>4,936</b>	<b>4,873</b>	<b>4,861</b>	<b>4,948</b>	<b>5,278</b>
Net Fixed Assets	2,198	1,126	1,474	1,759	1,979
Capital Work in Progress	54	3	-	-	-
Investments	96	85	112	112	112
Cash & Bank Balance	422	716	711	490	716
Loans & Advances & Other Assets	900	1,824	1,889	1,889	1,889
Net Current Assets	1,687	1,836	1,386	1,189	1,298
<b>Total Assets</b>	<b>4,936</b>	<b>4,873</b>	<b>4,861</b>	<b>4,948</b>	<b>5,278</b>
Capital Employed	4,417	3,770	3,758	3,845	4,174
Invested Capital	3,995	2,988	2,981	3,289	3,392
Net Debt	1,888	1,021	1,179	1,401	1,174
FCFF	491	2,807	246	86	656

Source: Company, CEBPL

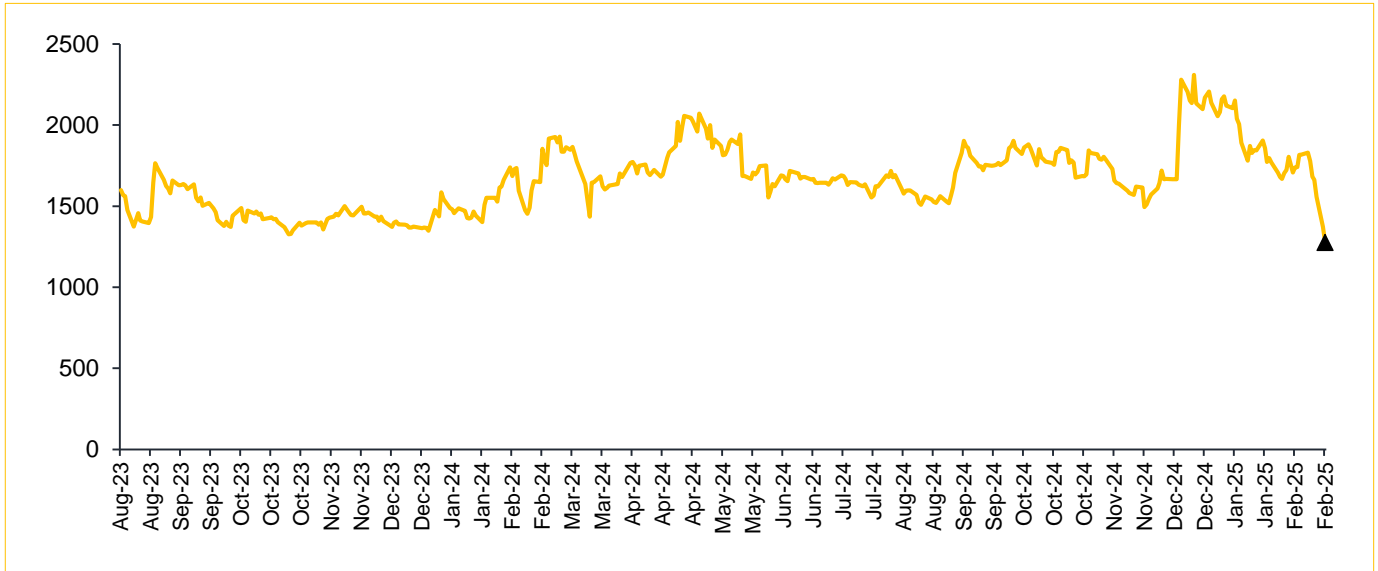
## Cash Flow Statement (Consolidated in INR Mn)

Cash Flows	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	709	2,136	1,046	886	1,456
Capex	(218)	671	(800)	(800)	(800)
FCF	491	2,807	246	86	656
Cash flows from Investing	(247)	(440)	(889)	(800)	(800)
Cash flows from Financing	(596)	(1,448)	(195)	(361)	(374)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Ratios (%)</b>					
Revenue	18.3	18.2	2.4	7.5	10.0
EBITDA	2.6	12.6	(7.4)	26.5	33.0
PAT	(132.6)	(127.7)	268.3	208.5	3.2
<b>Margin Ratios (%)</b>					
EBITDA	8.3	7.9	7.1	8.4	10.1
PAT	1.1	(0.3)	(0.9)	0.9	3.0
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	0.9	2.5	1.3	0.9	1.1
OCF/IC	17.8	71.5	35.1	26.9	42.9
ROE	4.7	(1.4)	(5.4)	5.6	17.1
ROCE	7.3	10.8	9.1	12.8	18.2
<b>Turnover Ratios (Days)</b>					
Inventory (days)	103	106	110	108	106
Debtors (days)	151	76	80	79	78
Payables (days)	83	80	78	76	74
Cash Conversion Cycle (days)	50	37	22	21	16
<b>Financial Stability Ratios (x)</b>					
Net Debt/Equity	0.9	0.5	0.6	0.7	0.5
Net Debt/EBITDA	2.5	1.2	1.5	1.4	0.9
Interest Coverage	1.2	1.2	1.2	1.7	2.7
<b>Valuation Metrics</b>					
Fully Diluted Shares (Mn)	13	13	13	13	13
Price (INR)	1270	1270	1270	1270	1270
Market Cap(INR Mn)	16,368	16,368	16,379	16,379	16,379
PE(x)	165	920.3	665.7	72.1	39.0
EV (INR Mn)	18,256	17,324	17,493	17,714	17,487
EV/EBITDA (x)	24	20	22	18	13
Book Value (INR/share)	163	158	145	152	177
Price to BV (x)	7.8	8.1	8.8	8.4	7.2
EV/OCF (x)	26	8	17	20	12

Source: Company, CEBPL

## Historical Price Chart: Centum Electronics Limited



## Institutional Research Team

Utsav Verma	Head of Research – Institutional Equities	utsav.verma@choiceindia.com	+91 22 6707 9440
Deepika Murarka	Analyst – Pharmaceuticals / Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Ashutosh Murarka	Analyst – Cement / Building Material	ashutosh.murarka@choiceindia.com	+91 22 6707 9887
Putta Ravi Kumar	Analyst – Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Aayush Saboo	Analyst – Real Estate & Infrastructure	aayush.saboo@choiceindia.com	+91 22 6707 9512
Maitri Sheth	Analyst – Pharmaceuticals / Healthcare	maitri.sheth@choiceindia.com	+91 22 6707 9511
Bharat Kumar Kudikyala	Associate – Cement / Building Material	bharat.kudikyala@choiceindia.com	+91 22 6707 9887
Heet Chheda	Associate – Automobile	heet.chheda@choiceindia.com	+91 22 6707 9952
Aryan Goyal	Associate – Auto	aryan.goyal@choiceindia.com	+91 22 6707 9517
Rushil Katiyar	Associate – Information Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9887

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Compliance Officer--Prashant Salian, Email Id – Prashant.salain@choiceindia.com Contact no. 022- 67079999- Ext-2310

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- ig@choiceindia.com

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