

Centum Electronics (CTE IN)

BUY ▲ 50% | Target Price: Rs.2,475

Strategic Electronics Play Surging Ahead in High-Growth ESDM Landscape; Initiate with BUY

Theme & Triggers:

- Global ESDM market is expected to clock 5.4% CAGR over CY21-26E and reach US\$1,145bn size compared to 3.5% growth over CY16-21.
- Indian ESDM market is likely to grow at much higher rate of 32.5% over FY22-27E and likely to quadruple to Rs5,995bn by FY27E from the current level of Rs1,469bn.
- ESDM end user industries i.e., Aerospace & Defence, Automotive, Medical, Industrial, Medical, Energy and Communication, which need designing and modernization in manufacturing in sync with technological advancement and changing geo-political equation.
- China+1, supply chain localization, favourable government policies i.e., PLI, SPECS, DLI and EMC 2.0, Atmanirbhar Bharat, import substitution, cost competitiveness and export focus have been supporting rapid growth of Indian ESDM sector.
- Centum Electronics is well-placed to deliver strong revenue and earnings growth in the coming period owing to its presence across key ESDM end-user industries, designing and manufacturing capabilities and proven execution track record.

Healthy Revenue-mix; Multiple Industry Tailwinds to Drive Growth: Centum's revenue-mix comprised of three unique verticals i.e., EMS, BTS and ER&D, which accounts for 39%, 29% and 32% respectively of total revenue. In light of capabilities, order backlog and multiple industry tailwinds, we believe all these verticals are well-placed to witness strong revenue growth in the coming period.

Turnaround Play: The management has been undertaking several measures to improve operations of subsidiary Centum T&S (formerly known as Adetel, acquired in CY16). The action plan includes: improving onshore/offshore employee mix from 85:15 to 50:50 in the next 3-4 years apart from either shifting development task to Indian centre or more work to be done from India. Centum owns 90.1% stake in this subsidiary as of Sept'23, whose operation was adversely impacted by COVID pandemic. However, this entity has been witnessing lower loss since last two years and reported more than Rs4bn turnover in FY23.

Outlook & Valuation – Initiate coverage with a Target Price of Rs2,475

We expect Centum's consolidate revenue and EBITDA to clock 20% and 36% CAGR, respectively over FY23-27E along with margin expansion, primarily on the back of improvement in subsidiary operation, increased focus and orders from high-margin verticals and strategic industries, where the company is having niche expertise and unique offerings. We believe the stock is reasonably valued vs. other ESDM players and expect a potential re-rating once the margin issues are addressed at subsidiary level. **We initiate coverage on Centum Electronics with a Target Price of Rs2,475 (valuing the stock at 2x on Price-to-Sales based on FY26E sales of Rs15.94bn) vs. peer group trade at over 2x on Price-to-Sales and 17x on EV/EBITDA.**

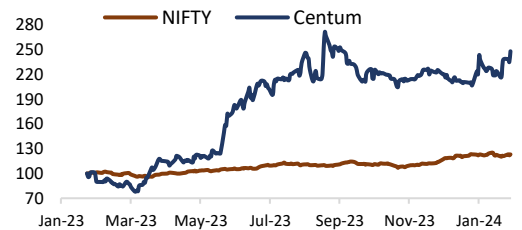
Stock Information

CMP (Rs)	1,650
Market Cap (Rs bn)	21.3
Free Float (%)	41.2
52 Week H/L	497/1970
O/S Shares (mn)	12.9
3M Daily Avg Volume (mn)	0.50

Shareholding Pattern (%)

	Jun-23	Sep-23	Dec-23
Promoters	58.8	58.8	58.8
- Pledged			
FII / NRI	0.1	0.5	0.4
MF/DII	7.7	7.9	7.3
Others	33.4	32.8	33.5

Stock Relative Performance



Research Analyst:

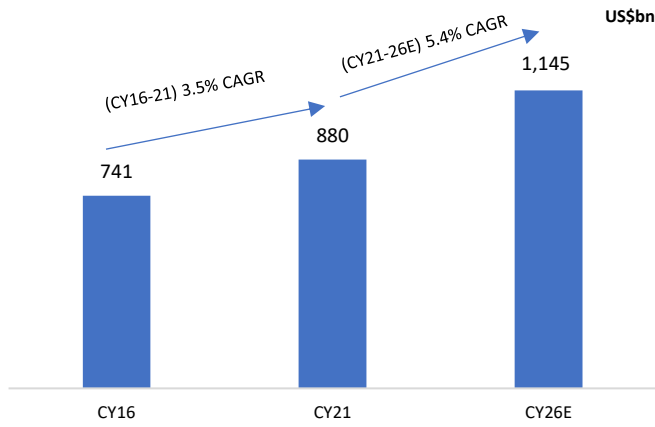
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Chiragk@ashikagroup.com

Financials (INR mn)	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	9,230	11,076	13,291	15,949	19,139
EBITDA	762	1,030	1,302	1,882	2,641
EBITDA Margin (%)	8.3	9.3	9.8	11.8	13.8
PAT	67	146	239	485	924
EPS (Rs)	7.6	11.3	18.5	37.6	71.7

Key Ratios	FY23	FY24E	FY25E	FY26E	FY27E
Price to Sales (x)	2.3	1.9	1.6	1.3	1.1
EV/EBITDA (x)	32.0	23.7	18.7	12.9	9.2
EV/Sales (x)	2.6	2.2	1.8	1.5	1.3
RoCE (%)	9.9	15.2	18.9	27.6	34.6
RoE (%)	3.3	6.8	10.1	17.7	26.9

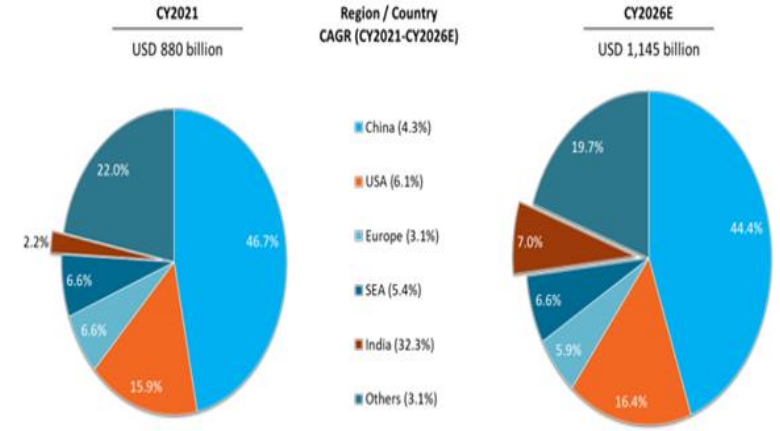
Electronics System Design & Manufacturing (ESDM) Market – At a Glance

Global ESDM market is likely to clock 5.4% CAGR over CY21-26, led by technological advancement and changing geo-political equation



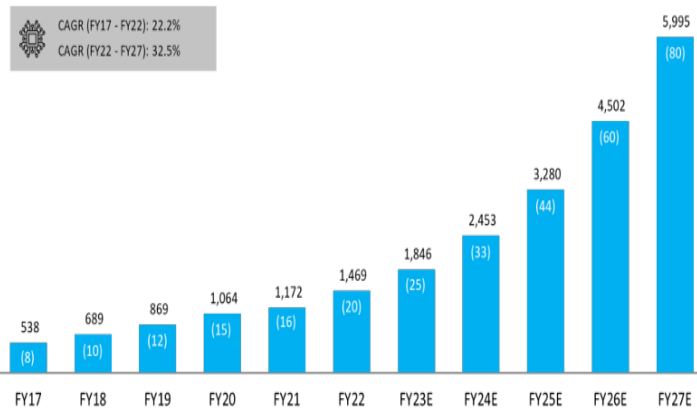
Source: Frost & Sullivan Analysis, RHP, Ashika Institutional Research

India's ESDM market share, which stood at ~2.2% in CY21, is likely to reach 7% by CY26E, led by multiple headwinds including PLI and cost benefit



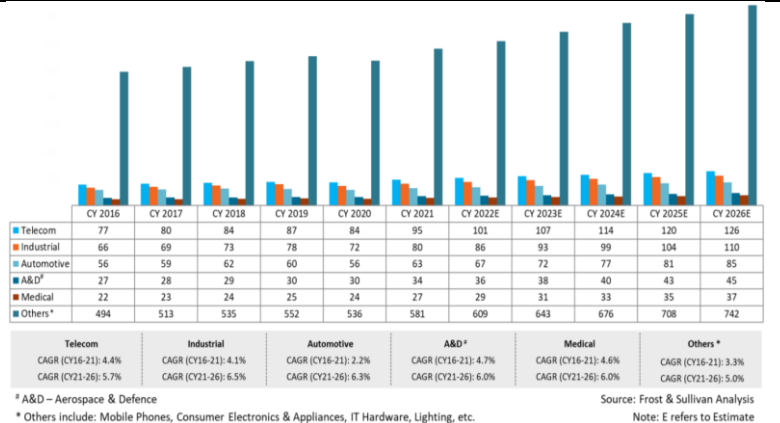
Source: Frost & Sullivan Analysis, Cyient RHP, Ashika Institutional Research

Indian ESDM market is likely to grow by sharp 32.5% over FY22-27; it is expected to quadruple to Rs5,995bn by FY27E from Rs1,469bn currently



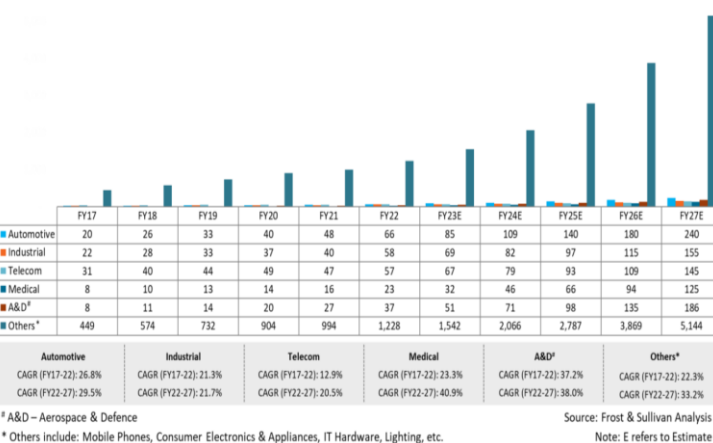
Source: Frost & Sullivan Analysis, Cyient RHP, Ashika Institutional Research; Note: Fig in USD bn

Spend of the key user industries (Aerospace & Defence, Medical, Automotive, Industrial and Telecom) is likely to clock 5-7% CAGR



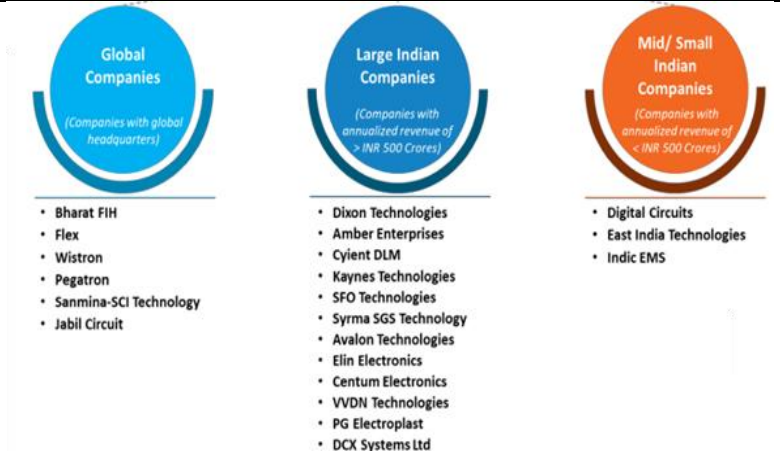
Source: Frost & Sullivan Analysis, Ashika Institutional Research; (Note: Fig. in USD bn)

The key select user industry segments of India's ESDM industry indicates growth of in the excess of 25% for next few years, driven by favourable manufacturing ecosystem and global outsourcing opportunities



Source: Frost & Sullivan Analysis, Ashika Institutional Research; (Note: Fig. in USD bn)

Most companies out of ~700 design and manufacturing companies in India are pure-play manufactures (EMS), while a few provide conceptual / embedded products and manufacturing (ESDM i.e., Centum & Kaynes)

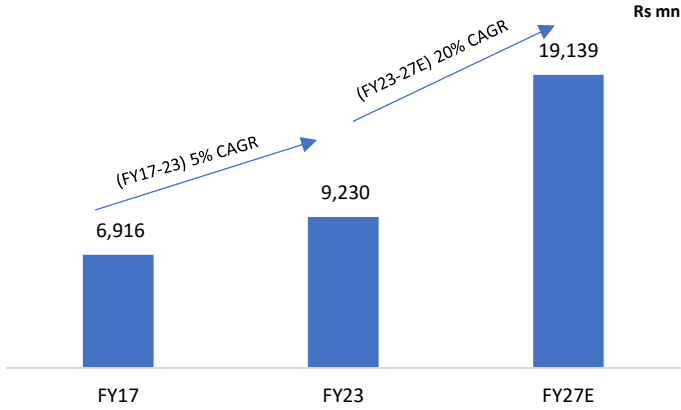


Source: Frost & Sullivan, RHP, Ashika Institutional Research

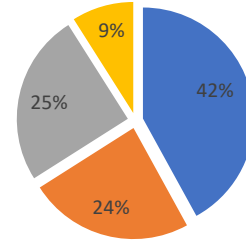
Centum – Story in Charts

We expect Centum’s revenue to clock 20% CAGR over FY23-27E on the back of multiple industry tailwinds, rising order-book and traction in EMS and BTS segments

Centum’s revenue-mix is tilted towards high-growth industries, in which the global spend for ESDM is likely to clock 5-7% CAGR; key Indian players are likely to witness >20% growth in foreseeable future



Source: Company, Ashika Institutional Research

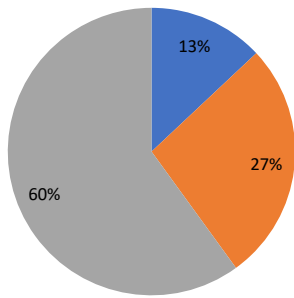


■ Defence, Space and Aerospace
■ Industrial & Energy
■ Transport & Automotive
■ Healthcare

Source: Company, Ashika Institutional Research

Overseas biz (Asia) accounts for major chunk of revenue; India biz is likely to contribute at least 35% and Centum plans to expand it next 2-3 years

Centum holds all major certificates required to participate in various sectors and sub-sectors specific business opportunities



■ North America ■ Asia ■ Europe

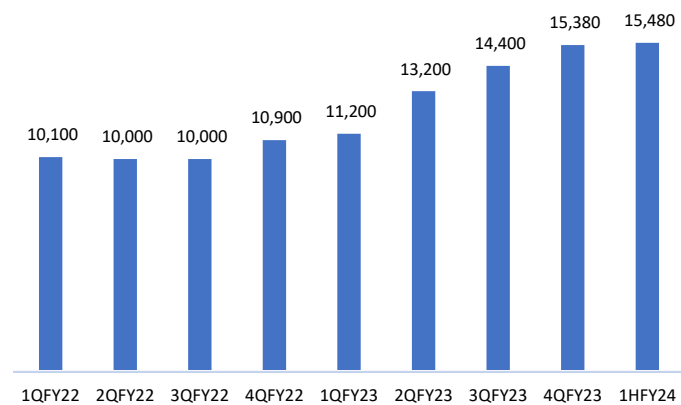
Source: Company, Ashika Institutional Research



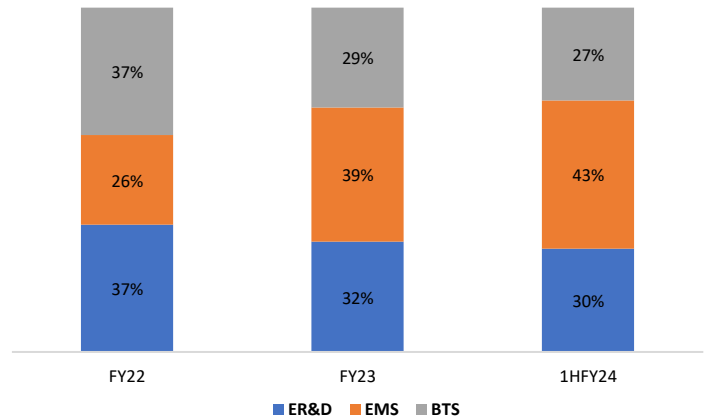
Source: Company, Ashika Institutional Research

Order inflow increased sharply over last 2 years (executable over 12-18 months); 2HFY24 order intake visibility is strong for BTS & EMS segments

Contribution of high-growth EMS business segment is rising gradually; EMS is likely to contribute significantly, going forward



Source: Company, Ashika Institutional Research



Source: Company, Ashika Institutional Research

Centum – Key Business Segments

A. Engineering R&D (ER&D) Services

Centum’s engineers work together in multidisciplinary teams to realize customized products for mission-critical applications in high technology segments. Design centers, which are located in Europe, North America and India, enable the company to work closely with international customers while bringing together the best talent from around the world to work on complex problems and provide a competitive solution by managing the optimal onshore / offshore mix for the projects. Centum also provides flexible engagement models depending on specific project requirements. Customers can choose between Consulting Engagements and Fixed Price Contracts. This segment contributed 32% to the topline in FY23.



B. Electronic Manufacturing Services (EMS)



Centum offers a wide range of manufacturing solutions from Printed Circuit Board assemblies to Complex box builds, Line Replaceable Units (LRU) and full system integration. The company helps its customers to realize challenging products by having customer-focused teams that leverage its streamlined processes and systems and adapt them to the specific requirements of the customer and product wherever necessary. By providing scalable manufacturing solutions and a flexible,

proactive approach to managing the supply chain and lifecycle related challenges. Centum also helps customers to achieve their goals of lowering total cost of ownership and reduced time-to-market. This segment contributed 39% to the topline in FY23.

C. Build to Specification (BTS) Services

The company’s Built to Specification (BTS) services include taking a project from conceptualization to mass production quickly and efficiently. Unique positioning with a full range of integrated capabilities makes the company the ideal partner for product realization. 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 fastens the products time-to-market and facilitating a design-to-cost approach



and reducing the total cost of ownership. This engagement model involves higher IP and value creation opportunities for both the customer and Centum. The company is also able to better the product lifecycle management by proactively managing issues i.e., obsolescence, performance upgrades, market-specific localization, and cost reduction. This segment contributed 29% to the topline in FY23.

Centum – business segment and capabilities

	Defence	Space	Aerospace	Transportation	Automotive	Industry & Energy	Healthcare
ER&D	●	●	●	●	●	●	●
EMS	●		●		●	●	●
BTS	●	●	●	●	●		●

Source: Company, Ashika Institutional Research

Business Opportunity in Aerospace & Defence (A&D) Space – Scuttlebutt Analysis

Recently, we visited few niche ESDM players and based on our insightful interaction with the industry expert, we observed that the Indian Air Force (IAF) is facing a critical situation with its aging fleet, which necessitates phased retirement of numerous military aircrafts.

Escalating tensions with neighbouring countries and a shifting geopolitical landscape leave the government seemingly compelled to expedite the design, development, and manufacturing processes for military aircrafts. Thus, the Government of India is formulating a policy framework that prioritizes locally designed, developed and manufactured military aircrafts. There is a strong government intention to accelerate the production of domestically manufactured fighter planes and helicopters.

Hindustan Aeronautics Ltd. (HAL) is already manufacturing Tejas MK1A and light combat and light utility helicopters with an established, localised supply chain that is substantially larger than import based licensed manufacturing. While order lifecycle from start to delivery clearly indicates that these are long gestation project, we expect time to shorten on the back of economic stability, sector-supportive policies and global OEM and Tier-I suppliers plan to treat India as a potential manufacturing hub amid various geo-political reasons.

HAL's Tejas MK1A – Timelines

Date	Activity
Nov-16	Cabinet clears necessity proposal of 83 LCA Mark1A
Mar-17	HAL initiate capex for production of LCA Mark1A
Dec-17	RFP issued by IAF to HAL
Feb-21	83 LCA Mark1A ordered awarded by IAF to HAL
Mar-24	First Tejas delivery
Mar-29	83 LCA Mark 1A units' delivery

Source: Industry, Ashika Institutional Research

IAF plans to retire over 280 aircrafts over CY27-35 and to procure >400 new aircrafts in next 20 years, which indicates order pipeline for aerospace and defence related electronics to remain high. As HAL is a client of Centum, its strong order visibility augurs well for Centum and other ESDM players, which cater to domestic aerospace and defence.

Long-term running and potential order-pipeline (CY20-31)

Aircrafts and Helicopters	Units	Rs bn
Advanced Su-30 MKI	12	120
MiG-29 procurement and upgradation	80	80
Hindustan Turbo Trainer -40	36	36
AL-31 FP Engine	240	260
RD-33 Engine	80	45
Light Utility Helicopter	187	286
Light Combat Helicopter	160	416
Marine Utility Helicopter	60	360
AWACS Aircrafts	6	110
LCA Tejas MK2	180	1,184
Advanced Medium Combat Aircraft (AMCA)	125	1,000
Boeing AH-64E Apache	6	65
TEDBF (Navy)	100	744
Indian Multi Role Helicopter (IMRH)	314	864
General Atomics MQ-9A Reaper Drones (Armed)	30	220
Multi Role Fighter Aircraft (MRFA)	114	1,600
Multi Role Carrier Borne Fighter Aircraft (MRFA)	57	422
Rafale Jet	26	500
Total		8,312

Source: Industry, Ashika Institutional Research

India's air traffic has been witnessing steady rise due to increase in middle class income and development of multiple airports. In CY23, India's largest airline Indigo, placed order for 500 units of Air bus A320 family aircrafts, while Air India placed order for 470 aircrafts. **We expect big orders by commercial airlines to benefit Centum, as it directly works with global OEM and Tier-I aerospace companies.**

Investment Thesis

Our investment thesis is based upon the following premises:

1. **Greater Focus on Growing Industry Segments**
2. **Operational Improvement Expected to Drive Re-rating**
3. **Multiple Industry Tailwinds**
4. **Attractive valuation**

1. Greater Focus on Growing Industry Segments

A. Aerospace, Defence & Space Segment: Global EMS market for A&D Electronics segment, accounts for 3.8% share of global EMS market. The segment, valued at US\$34bn in CY21, is likely to clock 6% CAGR to reach US\$45bn by CY26E. Indian EMS market for A&D Electronics segment accounts for 2.5% share of Indian EMS market. The segment, valued at Rs37bn in FY22, is likely to clock 38% CAGR to reach Rs186bn by FY27E.

I. Aerospace: This industry has very high entry barriers and requires high quality standards with multiple certifications. The aerospace industry has several ongoing technological initiatives to make aircrafts more fuel-efficient, environment-friendly and safer, which involves incorporating more electronics on board, making avionics platforms more configurable. Alongside the products for command and control, power electronics and energy storage applications, Centum is also developing activities in ground and flight testing (using its own test benches and simulators). It supplies inverter modules, power supply, module controller, test tools, LRU & Data Modular, Power management and embedded computers etc., which are used in wide range of commercial aircrafts, military aircrafts, helicopters and the key clients include major OEMs and Tier-I aerospace companies. Civil avionics, which have traditionally been untouched by Indian players, is likely to generate demand worth US\$10bn over the next 12 years.

Centum plays a key role in global aerospace supply chain, as it delivers critical electronics for cockpit computers, air traffic management and works closely with the OEMs to design next-generation flight controls, power solutions.

II. Defence Segment: Segmental demand has been increasing due to current geo-political situation, which led to higher defence budgets by many EU countries. Domestically, India's FY24 budget earmarked defence capex of Rs1.62 trillion. Looking ahead, India's defence manufacturing sector is poised for a significant growth in light of rising threats faced by India. Centum's products for defence industry includes: Radar, electronic warfare, missile, onboard computer systems, receiver and seeker electronics, transmit receive modules, high power RF amplifier, vibration hardened oscillators and power converters etc.

Big Catalyst: The Ministry of Defence released a series of indigenization lists, which mandates that listed items must be sourced domestically and contain at least 50% domestic contents. This step is a big catalyst to encourage domestic companies to invest and build capabilities either organically or through technology transfer with global OEMs.

We see strong order flow visibility for Centum in both domestic and export markets considering allocation of significant outlay for defence and space sectors, reducing defence imports and increasing domestic procurements with indigenizing usage of raw materials, components and sub-systems etc.

III. Space: Since CY02, Centum has a credible track record in delivering complex products that address applications in launch vehicles, satellite payloads, satellite bus systems and ground equipment. It is also a leading electronics industry partner and one of the largest private contractors for ISRO, involved in its various stages of design, development, qualification and production of electronic modules, subsystems. In order to be a trusted partner, Centum has made major investment to ensure delivering products with right quality, technology and in required quantities.

Further, Centum has delivered mission-critical electronics on ISRO's most satellite programmes including Chandrayaan and Mangalyaan. It also played a significant role in launch of RISAT-1A satellite in Feb'22. It designed, produced and delivered over 1,000 critical subsystems for satellite mission. While the cost of satellite was Rs4.75bn (US\$65mn), its contribution stood at 30% (Rs1.47bn/US\$20mn).

India's strategic electronics market size is expected to clock 7% CAGR to reach US\$15bn by CY32 based on stated plans and orders across various programmes.

India's space economy, which includes ground systems and satellite manufacturing, is projected to grow by 1.5x over CY23-27 from CY18-22 to Rs600-650bn, led by ISRO's various space programmes.

B. Industrial & Energy Segment: Digital transformation in utilities, infrastructure and manufacturing along with transition to clean and RE (like hydrogen) is driving new products that are smart, collaborative and ensures efficiency for the end-users. Thus, the demand for electrification and power grid infrastructure projects is likely to remain strong. Centum helps its customer to realize such products for applications in automation, control and measurement and energy etc.

Centum’s expertise in energy conversion and storage technology has helped its customers to develop customized micro-grid solutions as well as new solutions for railway infrastructure projects. Its major clients in Industrial & Energy segment include: ABB, GE and Hitachi.

C. Healthcare Segment: India is the 4th largest Asian medical devices market after Japan, China and South Korea, and placed amongst the Top-20 medical devices markets. India’s medical devices/equipment market is likely to increase to US\$50bn by CY25 from US\$12bn in CY20, owing to demand-supply dynamics (with 75-80% import dependency), which creates opportunities for the domestic manufacturers. Centum has engineered a variety of medical devices/equipment i.e., digital radiography systems, automated pumps for drug injections, ultrasound equipment, patient monitoring devices and customized room controls for operation theaters etc.

D. Transport & Automotive Segment: Centum is working very closely with the leading global OEMs and rail operators for developing next-gen technologies for rolling stock and signaling. It has developed proprietary technologies in 2 key product lines and its products are deployed on trains in North America, Europe, Asia and Australia for signaling equipment and passenger information systems. Further, it provides specialist engineering and manufacturing services to help clients to meet operational, commercial, and regulatory requirements. It works with Siemens and Alstom to manufacture PIS, LCD monitors and CCTV cameras.

Catalysts: (1) Huge investment by India, China, Egypt, Europe and Brazil to develop metro infrastructure; and (2) redevelopment, expansion and modernization of the US rail network.

Manufacturing ecosystem comparison on various parameters clearly indicates Indian ESDM players well placed to capitalize on this global and domestic manufacturing opportunities.



Source: Frost & Sullivan Analysis, Company, Ashika Institutional Research

Our Analysis: Whilst we conservatively expect Centum’s revenue to clock 20% CAGR over FY23-27E purely based on current order book and management’s view, it is likely to positively surprise us, as we have not considered the opportunities in BTS space, MoU with Indra Sistemas (Spain) for high-end radar systems and technologies.

2. Operational Improvement Expected to Drive Re-rating

In FY17, Centum acquired controlling stake in Adetel Group of France (rechristened to Centum T&S) to expand global presence, fill product portfolio gaps, improve market position and strengthen design services capabilities, which ultimately supported the growth in Built-to-Specification (BTS) and EMS divisions. Adetel, which has operations in the US, Europe and Canada, was a stressed asset at the time of acquisition. Adetel had 2 business divisions i.e., Energy and Engineering. As the energy division was incurring losses amid challenging market, Centum sold it in FY20. Centum T&S, which divided its operation between Canada and France (ER&D), reported Rs4.47bn revenue in FY23 vs. Rs4.32bn in FY22.

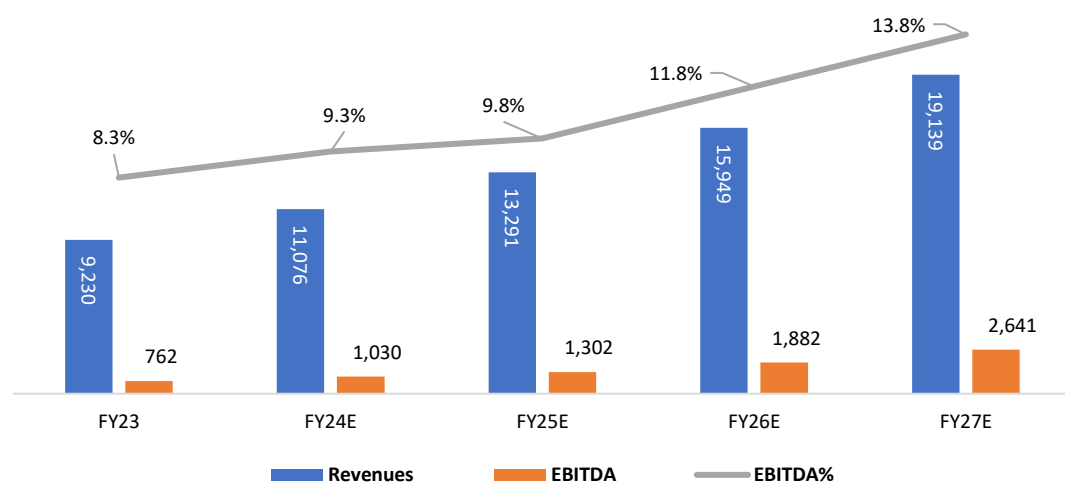
In Canada, Centum T&S works for Alstom to manufacture Public Information Systems (PIS), LCD monitors and CCTV cameras for transport network, mainly railway. This business contributes (~20-30%) to segmental turnover, while the rest comes from ER&D business. Notably, ER&D business operates at ~6% EBITDA margin, and the company has taken steps to increase it to ~10-11% level over the next few years. Action plan includes: improving onshore/offshore employee mix to 50:50 from 85:15 in next 3-4 years and shifting the development task to Indian center or more service part from India. In Canada-based business, it is also looking at cutting cost and shifting base to India for cost benefit and growth enabler in light of rail-infra related capex by the Government of India (GoI).

Segment-wise Break up (FY23)

Key Business Segment	Revenue (%)	Revenue (Rs mn)	EBITDA (%)	Expected EBITDA (%) (next 3 - 4 years period)	Order book breakup (%)	Order execution time (appx.)
BTS	29	2,676	20-25	20-25%	29	2-2.5 Years
EMS	39	3,600	7-9	11-12%	39	12-15 Months
ER&D	32	2,954	5-6	10-11%	32	8-12 Months
Overall FY23 (Conso.)		9,230	8.3	13-15%		12-15 Months

Source: Company, Ashika Institutional Research, EBITDA (%) expectation over next 3-4 years based on steps taken by the management; our calculations, guidance, order-book as on Sept'23

We expect revenue and EBITDA to grow by 20% and 36% over FY23-27E, led by the steps for margin improvement and focus on high-growth and high-margin business like EMS



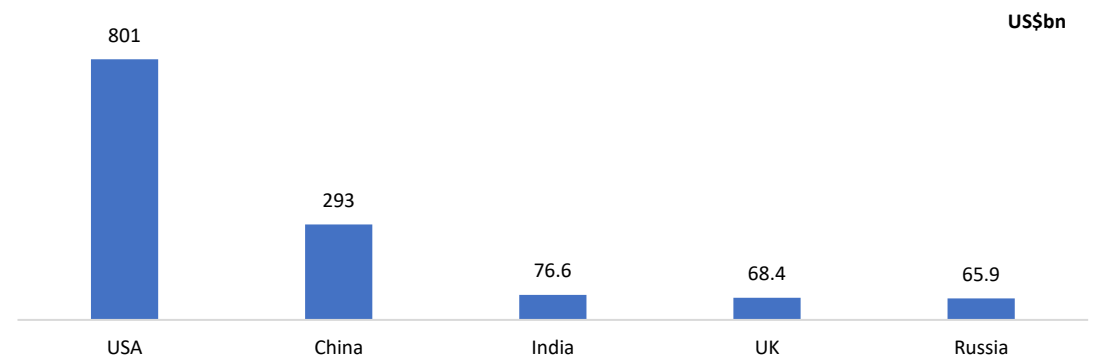
Source: Ashika Institutional Research

3. Multiple Industry Tailwinds

Industry tailwinds and structural drivers, which are likely to aid Centum to sustain high growth momentum include but not limited to government focus, “Make in India” in defence manufacturing, Product-linked Incentive (PLI) and China+1 strategy etc.

A. Government’s Thrust on Make in India: India is third largest global military spender and accounts for ~3.7% of global spend with an amount of US\$76.6bn in CY22. It comes after the US and China in terms of spend. India’s military expenses account for 2.4% of GDP.

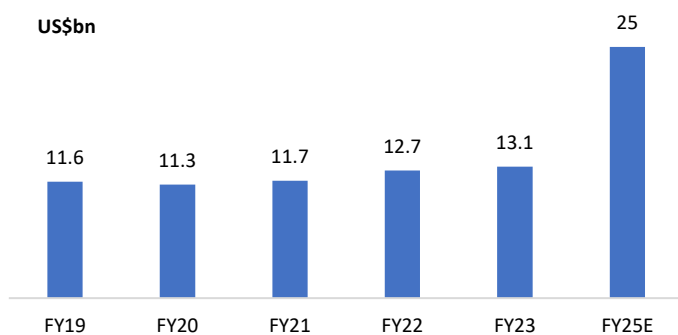
Key global defence spenders



Source: MoD, Inc42, Stockholm international Peace research, Ashika Institutional Research

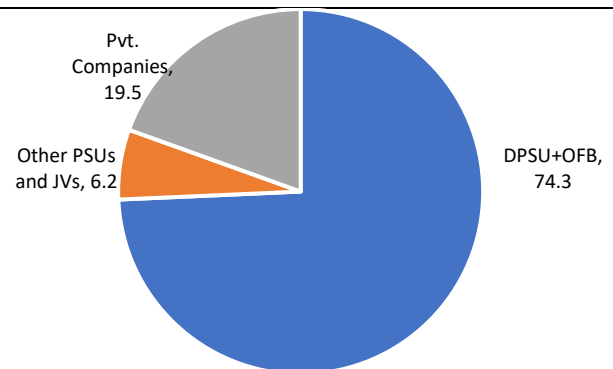
B. Ambitious Target of the Government for Defence Manufacturing: For Indian aerospace and defence manufacturing sector, the GoI has set an ambitious target of US\$25bn turnover (including US\$5bn exports) in FY25 from US\$13.1bn in FY23. A structural shift in defence sector is clearly visible with increasing allocation for modernized indigenous platforms, Increase in the budgetary share of domestic procurement to 75% for FY24 from 68% for FY23 implies ~19% growth as against 8% growth for total budgeted outlay.

The GoI aims to double India’s defence production over FY23-25E



Source: IBEF, Ashika Institutional Research

Sector-wise defence FY23 production (%)



Source: IBEF, Ashika Institutional Research

C. Thrust for Indigenization: The Ministry of Defence released a series of indigenization lists, which mandates that listed items must be sourced domestically and contain at least 50% domestic contents. This step is seen as a big catalyst to encourage domestic companies to invest and build capabilities either organically or through technology transfer with global OEMs. The emphasis is not only on reducing defence equipment imports, but also on increasing India’s exports of defence equipment/technology by relaxing export regulations, encouraging PPP and inviting global delegations to consider India as a defence supplier.

D. Healthy Prospects for Indian Defence Electronics Industry: As per the industry reports, the Indian defence electronics industry is likely to clock 13-14% CAGR over FY22-27 and reach Rs650-700bn by FY27, led by rising usage of electronics and increasing share of defence electronics in total defence production. Share of defence electronics is seen at 40-42% of total defence production by FY27 vs. the current level of 36-37%.

E. Product linked Incentive (PLI) Schemes: It aims to attract large investments in electronic manufacturing, components and Assembly, Testing, Marking & Packaging (ATMP) units. Under the scheme, 4-6% incentive is given on incremental sales of goods manufactured in India for five years subsequent to base year (FY19-20). The applicant companies are required to meet minimum thresholds of investment and production and meet eligibility criteria to get incentives under the scheme, which has an outlay of ~US\$5.5bn.

F. Modified EMC - 2.0: It aims to attract global electronic manufacturers along with their supply chains to India. It offers benefits i.e., financial assistance up to 50% of project cost (subject to a ceiling of Rs700mn/100 acres of land). Under the scheme, the GoI has approved 3 applications to set of EMC with a project cost of Rs19bn (including financial assistance of Rs8.9bn). It is expected to attract Rs209bn investment to India.

G. Semiconductors and Display Fab Ecosystem: This is a comprehensive incentive programme of the Government of India to develop a sustainable semiconductor and display ecosystem in the country with an outlay of Rs760bn. It aims to provide incentive to the companies involved in Silicon Semiconductor Fabs, Display Fabs, Compound Semiconductors/Silicon Photonics/Sensors (including MEMS) Fabs, Semiconductor Packaging (ATMP/OSAT), and Semiconductor Design (CAD).

H. China + 1 Strategy: The OEMs from the US and Europe are exploring an alternative country for supplementary production. India stands in a favourable position to reap the advantages of the global OEMs in light of lower labour/operational cost and favourable government policies.

BTS Services vertical accounts for ~29% of Centum's revenue with an EBITDA margin of 20-25%. The company works with DRDO, ISRO and several defence PSUs i.e., HAL, BEL and BDL etc. It also works with global OEM i.e., Alstom, Siemens, Rafael, Thales and Saffran. **In light of industry tailwind and healthy bidding pipeline, we expect Centum to witness a healthy revenue momentum going forward.**

4. Attractive Valuation

We believe the stock is reasonably valued compared to other ESDM players and expect a potential re-rating once subsidiary-related margin issues are addressed. We expect the company to witness broad-based revenue growth, going forward. We expect its consolidated revenue and EBITDA to clock 20% and 36% CAGR, respectively over FY23-FY27E. **Considering high growth potential and margin expansion-led profitability, We initiate coverage on Centum Electronics with a Target Price of Rs2,475 (valuing the stock at 2x on Price-to-Sales based on FY26E sales of Rs15.94bn) vs. peer group trade at over 2x on Price-to-Sales and 17x on EV/EBITDA.**

Key Risks:

- Delay in government's spending for space and defense spend programs due to change in policies.
- Demand slowdown and unavailability/inadequate availability of raw materials due to geo-political issues.
- Payment delays and increase in working capital.
- Client and geographic concentration risk.

Comparative Valuation

Peer Group (INR Mn)	M Cap	FY25E							FY26E							FY27E						
		Revenue	EBITDA	PAT	P/S	EV/EBITDA	P/E	Revenue	EBITDA	PAT	P/S	EV/EBITDA	P/E	Revenue	EBITDA	PAT	P/S	EV/EBITDA	P/E			
Defence																						
HAL	20,21,506	3,28,829	80,323	58,763	6.1	23.0	34.4	3,72,747	91,609	67,053	5.4	20.1	30.1	4,19,955	97,469	71,941	4.8	18.9	28.1			
Bharat Dynamic	3,13,390	42,358	8,978	8,064	7.4	30.7	38.9	53,516	11,686	10,346	5.9	23.6	30.3	61,102	12,596	11,593	5.1	21.9	27.0			
Bharat Electron	13,76,430	2,34,634	54,320	40,813	5.9	23.8	33.7	2,65,174	62,298	46,517	5.2	20.8	29.6	2,83,990	67,773	50,549	4.8	19.1	27.2			
Astra Micro	63,790	11,274	2,355	1,543	5.7	26.7	41.3	13,724	2,937	2,019	4.6	21.4	31.6	15,800	3,616	2,781	4.0	17.4	22.9			
Data Patterns	1,13,040	7,801	3,376	2,485	14.5	32.4	45.5	10,551	4,402	3,253	10.7	24.9	34.7	-	-	-	-	-	-			
EMIS																						
Kaynes Tech	1,78,680	24,729	3,745	2,489	7.2	47.2	71.8	33,474	5,131	3,449	5.3	34.5	51.8	45,453	7,052	4,741	3.9	25.1	37.7			
Avalon	33,340	13,014	1,508	955	2.6	22.9	34.9	16,026	1,930	1,226	2.1	17.9	27.2	18,341	1,691	1,029	1.8	20.4	32.4			
Cyient DLM	62,240	16,171	1,760	1,146	3.8	33.8	54.3	21,264	2,442	1,678	2.9	24.4	37.1	-	-	-	-	-	-			
Syrma SGS	90,260	41,774	3,745	2,224	2.2	25.1	40.6	56,083	5,146	3,111	1.6	18.3	29.0	72,166	7,302	4,587	1.3	12.9	19.7			
Centum*	21,290	13,291	1,302	239	1.6	18.7	89.1	15,949	1,882	485	1.3	12.9	43.9	19,139	2,641	924	1.1	9.2	23.0			

Source: Bloomberg, Ashika Institutional Research

Financial Projections

P&L Statement (Consolidated)

Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Revenues	7,799	9,230	11,076	13,291	15,949	19,139
Change (YoY%)	(4.6)	18.3	20.0	20.0	20.0	20.0
COGS	3,020	4,152	4,984	5,981	7,018	8,230
Gross Profit	4,780	5,078	6,092	7,310	8,931	10,909
Change (YoY%)	1.3	6.2	20.0	20.0	22.2	22.1
Employee Expenses	3,199	3,327	3,987	4,718	5,582	6,603
Other Expenses	838	989	1,074	1,289	1,467	1,665
Total Expenses	7,057	8,468	10,046	11,988	14,067	16,498
Change (YoY%)	(3.0)	20.0	18.6	19.3	17.3	17.3
EBITDA	742	762	1,030	1,302	1,882	2,641
Change (YoY%)	(17.1)	2.7	35.2	26.5	44.5	40.3
Depreciation	432	438	498	598	718	861
EBIT	311	324	532	704	1,164	1,780
Change (YoY%)	(29.8)	4.3	64.2	32.5	65.3	52.9
Finance Cost	264	273	332	399	478	574
Share of P/L of associates	(45.7)	12				
Exceptional Items	(604)					
Other Income	80	59	66	80	96	115
PBT	(522)	121	266	385	781	1,321
Tax Expenses	13	54	120	146	297	396
PAT	(535)	67	146	239	485	924
EPS (Rs)	(24)	7.6	11.3	18.5	37.6	71.7

Margin Analysis

Y/E March (%)	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Gross Profit	61.3	55.0	55.0	55.0	56.0	57.0
EBITDA	9.5	8.3	9.3	9.8	11.8	13.8
EBIT	4.0	3.5	4.8	5.3	7.3	9.3
Tax Rate	NC	44.8	45.0	38.0	38.0	30.0
PAT	NC	0.7	1.3	1.8	3.0	4.8

Cash Flow Statement

Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E
PBT	(522)	121	266	385	781	1321
Cash Flow from Operation	1035	710	731	579	463	886
Cash Flow from Financing	(149)	(113)	(200)	(150)	(150)	(150)
FCFF	260	121	552	391	266	680

Balance Sheet

Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Share Capital	129	129	129	129	129	129
Reserves & Surplus	1,856	1,912	2,125	2,363	2,848	3,772
Total Equity	1,985	2,041	2,253	2,492	2,977	3,901
Total liabilities	7,244	8,686	9,591	10,483	11,869	13,681
Total Equity and Liabilities	9,230	10,727	11,845	12,975	14,846	17,582
Non-Current Assets	3,356	3,319	3,688	3,693	3,741	3,784
Current Assets	5,873	7,408	8,156	9,282	11,105	13,798
Total Assets	9,230	10,727	11,845	12,975	14,846	17,582

Financial and Valuation Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Book Value (Rs)	155.1	159.4	176.0	194.7	232.6	304.8
Fixed Asset Turnover (x)	3.0	3.7	4.3	5.0	6.1	7.5
Total Asset Turnover (x)	0.8	0.9	1.0	1.1	1.1	1.2
ROE %	(24.4)	3.3	6.8	10.1	17.7	26.9
ROCE %	9.0	9.9	15.2	18.9	27.6	34.6
Debt to Equity (x)	1.4	1.3	1.3	1.3	1.1	0.9
Debtor Days	109	125	127	108	100	100
Inventory Days	253	214	197	186	190	195
Payable Days	134	143	159	141	135	135
Cash Conversion Cycle (Days)	228	196	165	152	155	160
Net Working Capital Days	93	80	72	71	72	80
Price to Sales	2.7	2.3	1.9	1.6	1.3	1.1
P/E				89.1	43.9	23.0
EV/EBITDA	32.8	32.0	23.7	18.7	12.9	9.2
EV/Sales	3.1	2.6	2.2	1.8	1.5	1.3

Additional Description

Company Background	Centum was founded in 1994 in Bangalore, India. Since then, Centum has rapidly grown into a diversified electronics company with operations in North America, EMEA and Asia. The company offers a broad range of products and services across different industry segments. It has continuously invested in strengthening its design & product development capabilities while developing deep domain knowledge in the segments it operates in. Centum has also established truly world-class manufacturing facilities with cutting edge infrastructure as well as a global supply chain capable of delivering products with high quality and reliability.	
Presence	Centum Group's offerings range from customized product design & development, manufacturing services and turnkey solutions for mission-critical applications. These solutions are offered through the key operating business units that work together to address the customer needs. Each business unit is led by a strong and experienced management team. It has presence in ER&D, EMS and BTS verticals.	
Management Depth	Please refer to the tables given hereunder.	
Revenue Contribution (as of 1HFY24)	Geography wise <ul style="list-style-type: none"> • North Americas – 13% • Asia– 27% • Europe– 60% 	Vertical Wise <ul style="list-style-type: none"> • ER&D– 30% • EMS – 43% • BTS – 27%
Credit Rating	CRISIL BBB/Stable (as on Dec-19, 2023)	
Auditors	S.R. Batliboi & Associates LLP	

Source: Company, Ashika Institutional Research

Board of Directors

Name	Designation	Brief Profile
Apparao Mallavarapu	CMD	Mr. Apparao founded Centum Electronics in 1993. Under his leadership Centum has grown to be a global Electronics Design and Manufacturing Company, with operations in India, France, Belgium and Canada. He has been conferred with the prestigious 'Order of Rio Branco' by the Brazilian government.
Nikhil Mallavarapu	Executive Director	Mr. Nikhil has been associated with Centum since 2012 has served in various leadership positions including overall business unit management and group level Corporate & Strategy Development. Prior to joining Centum, he worked at Analog Devices in Boston.
Manoj Nagrath	Independent Director	Mr. Manoj has experience of over 40 years as a practicing CA. He has performed a wide range of assignments in multiple areas including JV consulting, structuring/re-structuring of businesses and business consulting and due diligence etc.
Pranav Kumar Patel	Independent Director	Mr. Pranav is the Founder & CEO of US-based Meditech Safe, an innovative healthcare-oriented cybersecurity company. Prior to this, he has held various senior executive roles including leading GE's Healthcare Services business in North America as well as Chief Marketing Officer at GE Aviation.
Rajiv C Mody	Independent Director	Mr. Mody is the Founder, CMD & CEO of Sasken Technologies, under whose leadership, Sasken has grown into a global powerhouse in Product Engineering and Digital Transformation services. Prior to this, he worked with corporations like AMD, Seattle Tech, and VLSI Technology.
P. Thiruvengadam	Independent Director	Mr. Thiruvengadam was a National Director at Deloitte Touche Tohmatsu India providing leadership to the HR transformation practice. He has over 40 years of experience in management consulting with expertise in HR Strategy & Talent Management, Business Process Improvement and Strategic Planning etc.
V. Kavitha Dutt	Independent Director	Ms. Dutt is the Joint MD at KCP, an 80-year-old diversified business group involved in the manufacture of cement, heavy engineering, sugar, power generation, and hospitality. She has been involved in various business, social and cultural activities. She is a Director-FLO Industrial Park and VP-World Telugu Federation.
Tanya Mallavarapu	Non-Executive Director	Ms. Tanya is the founder of TMR Design Company, an interdisciplinary design firm that emphasizes on innovation, creativity, and functionality in a wide array of industries from healthcare, residential, commercial and hospitality. Prior to this, she worked as a business analyst at Intuit.

Source: Company, Ashika Institutional Research

Key Management Personnel

K.S. Desikan	CFO	Mr. Desikan, who has been serving as CFO since 2001, has been instrumental in development of strategy and growth of the company. He has an overall experience of 34 years. Prior to joining Centum, he served leading organizations like Tube Investments and BPL in various capacities.
Eric Rouchouze	CEO (Centum T&S Group)	Mr. Eric spent most of his career in engineering services and technology consulting companies. He joined Assystem Group in 1997, where he worked for several years as a business manager for customers in the nuclear sector. He has been working in AKKA for 19 years as COO France.
Vinod Chippalkatti	President (SEBU)	Mr. Vinod is responsible for Build to Spec business in Centum delivering mission-critical products for satellites, launch vehicles, radars, missiles among others. He has been with Centum for 20 years in different leadership positions, and prior to this, he spent 10 years at ISRO.
Jagadish Singh G	President (EMS Business Unit)	Mr. Singh is an experienced professional with domain expertise in electronics manufacturing industry, specializing in business development, sales, program management, team building, and so on. He has been with Centum since 2009 and has over 30 years of professional experience.

Source: Company, Ashika Institutional Research

Non-Promoter Top-Holdings (Dec-23 Shareholding)

Name	Shareholding (%)
HDFC Infrastructure Fund	4.65
3P India Equity Fund 1	2.19
Shivani Tejas Trivedi	2.69
Minal Bharat Patel	2.11
Equity Intelligence India Pvt. Ltd.	1.01
Zen Securities Ltd. – Clients (Dormant)	1.48

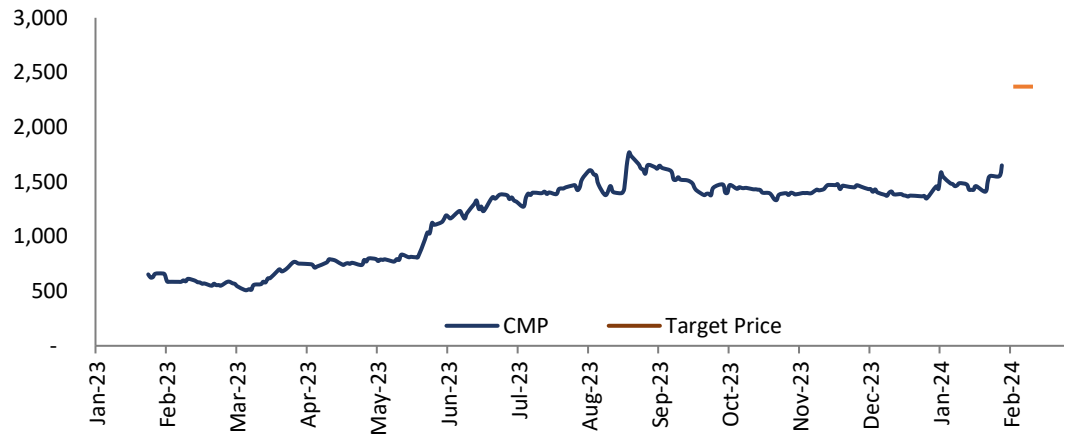
Source: Company, NSE, Ashika Institutional Research

Recommendation History

Date	CMP (Rs)	TP (Rs)	Rating	Analyst	Report Link
19-02-2024 (IC)	1,650	2,475	BUY	Chirag Kachhadiya	

Source: Ashika Institutional Research

Recommendation History & Target Price



Source: Bloomberg, Ashika Institutional Research

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 Website: www.ashikagroup.com

Recommendation & Absolute Return

BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NR	NOT RATED - rating and fair value, if any, have been suspended temporarily
CS	COVERAGE SUSPENDED - Ashika Institutional Research has suspended coverage of this company
NC	NOT COVERED - Ashika Institutional Research does not actively cover this company

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Details of Associates

SI No	Name	CIN/ LLPIN	Registration Number
1	Ashika Credit Capital Ltd	L67120WB1994PLC062159	RBI registered NBFC bearing Registration No 5.2892
2	Ashika Capital Ltd	U30009WB2000PLC091674	Merchant Banker bearing Registration No INM000010536
3	Ashika Stock Broking (IFSC) Pvt Ltd	U65929GJ2016PTC094597	Stock Broker with NSE IFSC & India INX bearing Registration No - INZ000099630
4	Ashika Business Pvt Ltd	U45100WB2004PTC098055	NA
5	Ashika Properties Pvt Ltd	U70101WB2005PTC102582	NA
6	Ashika Global Securities Pvt Ltd	U65929WB1995PTC069046	RBI registered NBFC bearing Registration No - B.05.00008
7	Ashika Logistics Pvt Ltd	U67200WB2004PTC098054	NA
8	Ashika Global Finance Pvt Ltd	U01132WB1994PTC066087	RBI registered NBFC bearing Registration No - B-05.5583
9	Ashika Entercon Pvt Ltd	U70103WB2017PTC220511	NA
10	Ashika Wealth Management Pvt Ltd	U65999WB2018PTC227019	NA
11	Ashika Investment Managers Pvt Ltd	U65929MH2017PTC297291	Investment Manger to Ashika Alternative Investments, a Category III AIF bearing Registration No - IN/AIF3/20-21/0811
12	Ashika Commodities & Derivatives Pvt Ltd	U51909WB2003PTC096985	NA
13	Puja Sales Promotion Pvt Ltd	U51109WB1993PTC059596	NA
14	Dhara Dealers Pvt Ltd	U52190WB2011PTC169226	NA
15	Yaduka Financial Services Ltd	U51109WB2007PLC117012	RBI registered NBFC bearing Registration No - N.05.06760
16	Ashika Minerals India LLP	AAR-7627	NA
17	Ashika Vyapaar LLP	AAE-3310	NA
18	Ashika Ventures LLP (formerly known as Ashika Rise Realty LLP)	AAO-9947	NA