

SIMPLEX INFRASTRUCTURES

Shifting to higher gear

India Equity Research | Infrastructure - Construction

Simplex Infrastructure's (SINF) Q3FY18 revenue fell 2% YoY due to GST impact and client-related issues. However, better cost control led to PAT surging 69% YoY. Improving business prospects (reflected in healthy order inflow) has led to management now shifting focus from consolidation to growth—targeting 20% top-line growth going ahead. Moreover, green shoots are emerging on the working capital cycle front—an elongated cycle had led to higher leverage and constrained growth over the past couple of years. We believe, a diversified segmental presence and robust execution capabilities will drive ~40% PAT CAGR over FY18-20E. Maintain 'BUY' with SOTP-based target price of INR826 as we roll over to FY20E.

(This reports contains takeaways from our recent meeting with the management)

Q3FY18: GST, client-specific issues hit top line; order inflows strong

SINF's Q3FY18 top line fell 2% YoY to INR13.6bn due to GST/delay in design submission by clients. However, better cost control and lower tax rate led to PAT surging 69% YoY. Order book rose for fifth consecutive quarter to INR177bn. Management is targeting ~INR250bn order inflow over FY19-20 driven by burgeoning public sector capex.

Working capital improvement to aid growth; debt down QoQ

The company's debt declined by ~INR400mn QoQ to ~INR35.7bn aided by debtor recovery. An elongated working capital cycle (257 days) has led to leveraged balance sheet and constrained top-line growth. However, falling share of private sector orders in the order book (lowest in a decade) and regulatory measures like RERA/claims resolution will aid SINF bring its working capital cycle down. Management's target is to cut working capital cycle to ~130 days going ahead.

Outlook and valuations: Attractive; maintain 'BUY'

SINF's diversified presence across infra verticals will enable it to capture opportunities arising from the capex recovery spearheaded by the public sector ([Capex recovery: Here it comes!](#)). Moreover, fall in debt driven by improvement in working capital cycle will boost earnings. We maintain 'BUY' with SOTP-based target price of INR826 (INR764 from EPC business at 16x FY20E EPS and balance from BOT project) as we roll over to FY20E.

Financials (Standalone)						(INR mn)		
Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	FY17	FY18E	FY19E
Revenues	13,601	13,864	(1.9)	12,460	9.2	56,075	57,244	64,906
EBITDA	1,785	1,593	12.0	1,696	5.3	6,887	7,145	8,101
Adj profit	311	184	68.9	278	11.9	1,203	1,230	1,514
Dil. EPS (INR)	6.3	3.7	68.9	5.6	11.9	24.2	24.8	30.5
Diluted P/E (x) *						21.2	20.8	16.9
EV/EBITDA (x) *						8.5	8.3	7.3
ROAE (%)						8.1	7.7	8.8

* for implied construction business

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: SINF.BO, B: SINF IN)

CMP	: INR 576
Target Price	: INR 826
52-week range (INR)	: 655 / 272
Share in issue (mn)	: 49.5
M cap (INR bn/USD mn)	: 28 / 444
Avg. Daily Vol. BSE/NSE ('000)	: 51.1

SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	56.3	56.3	56.3
MF's, FI's & BKs	18.8	19.7	19.6
FII's	1.5	1.4	0.2
Others	23.4	22.6	23.8
* Promoters pledged shares (% of share in issue)	:	Nil	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(7.3)	(8.3)	(1.0)
3 months	2.9	16.2	13.3
12 months	27.4	85.8	58.4

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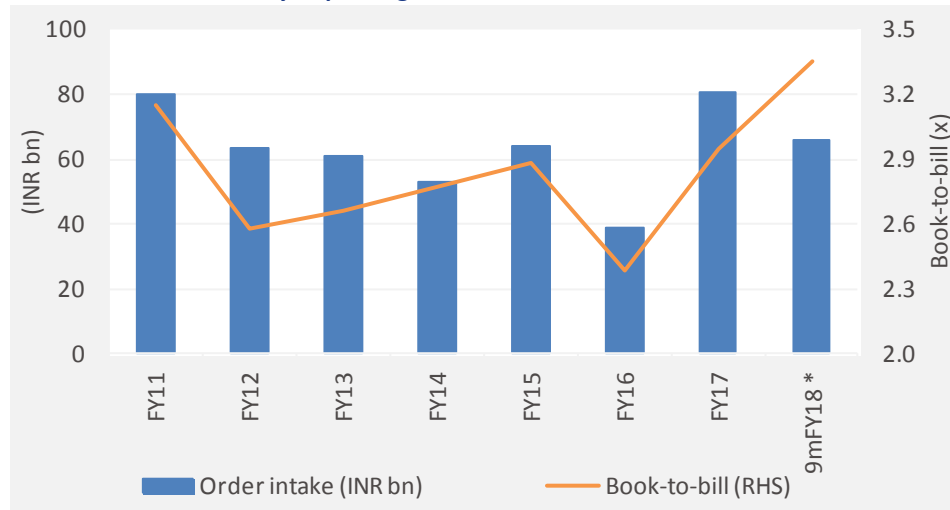
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Growth makes a comeback

Management indicated that the capex cycle is well and truly underway. For the first time in a decade, all segments are witnessing large-scale bid pipeline spearheaded by government spending on infrastructure build up. This dovetails with our public sector-led capex recovery thesis.

SINF perceives huge opportunities in roads, power T&D, urban infra, metro rail and buildings & housing segments. This is amply reflected in the company's improving order intake; its order book rose for the fifth consecutive quarter (to INR177bn) in Q3FY18.

Chart 1: Revenue visibility improving



Source: Company, Edelweiss research

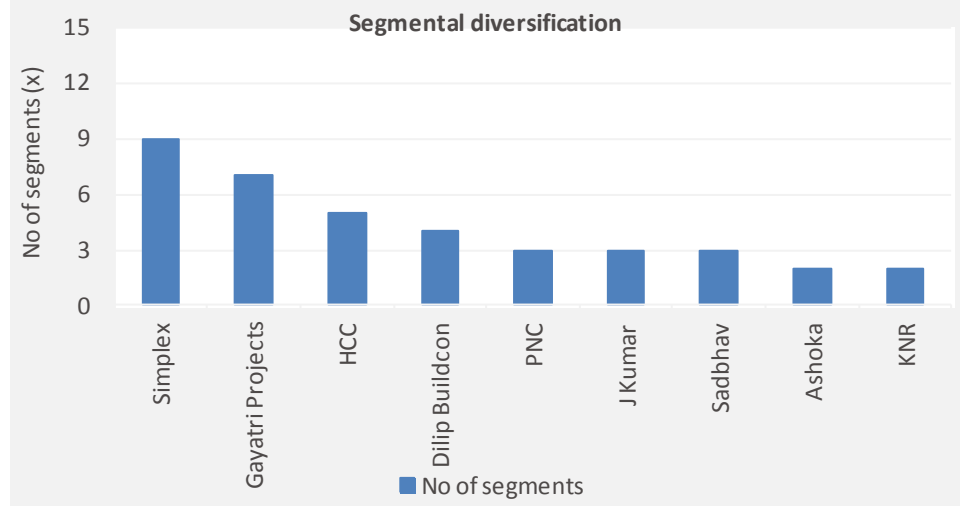
Note: * includes L1 orders

In light of improving growth prospects, management indicated a shift in strategy from consolidation to growth. Over the past couple of years, rising competition due to muted capex trajectory and tough liquidity scenario (high working capital requirements) had led to the company adopting a prudent stance to conserve capital by restricting growth.

With the scenario improving on both these parameters (bidding pipeline and liquidity), management now intends to vigorously pursue growth. It is planning to focus on public sector-driven projects going ahead. The company is targeting ~INR250bn order intake over FY19 and FY20—this is more than the total quantum of orders won over FY14-17. In addition, management is targeting 20% top-line growth going ahead.

Multiple growth avenues

SINF has one of the most diversified segmental presence in the EPC space—it undertakes projects in buildings/housing, transport (roads, bridges, railways), industrial structures, power (generation and T&D), urban infrastructure, metro rail, piling and marine segments.

Chart 2: Diversified segmental presence brightens prospects


Source: Edelweiss research

As a result, the current scenario, where multiple segments are witnessing large number of bids, is highly beneficial for the company. Unlike some of its peers wherein order intake is concentrated in a few segments like roads etc., SINF has no such issues. Therefore, its growth is likely to be well rounded and the potential to earn high operating margin is huge.

Robust credentials in buildings segment

The past couple of years have seen increasing opportunities in building construction like residential & commercial space and educational & medical facilities, largely driven by public sector spending (***"Buildings: Dawn of a new era"***). This is generating significant orders for construction companies like SINF, which have rich experience in the buildings/housing space. In fact, SINF is amongst the top 4-5 companies in India as far as pre-qualification credentials in the buildings domain are concerned. It is one of the handful of contractors which can execute building projects of >INR5bn.

Opportunities in building construction are manifested in the following ways:

- Housing For All (HFA):** The Union government has set an ambitious target of achieving "Housing For All By 2022". As part of this scheme, the central government is planning to complete 29.5mn rural houses and 20mn urban houses by 2022. In the first phase, it is targeting construction of 10mn rural houses by March 2019 at a cost of ~INR1.3tn.

On the urban front, the government had launched the Pradhan Mantri Awas Yojana (Urban) in June 2015. The scheme targets to build 20mn affordable houses in urban areas (for slum dwellers and people from EWS and LIG segments) by 2022. This will be done via financial assistance of ~INR2tn from the central government. The Ministry of Housing and Urban Affairs (MoHUA) has already approved the construction of 3.78mn affordable houses benefitting the urban poor under this scheme.

We believe, government's thrust on affordable housing ("Housing For All") is a potent game changer.

- **Rising spending on employee housing/healthcare and education segments:** Apart from HFA, employee housing, educational and healthcare segments are also witnessing large scale spending.

For employee housing, the two main schemes are:

- **General Pool Residential Accommodation (GPRA),** which targets central government residential accommodation, primarily in cities like Delhi, Mumbai, Kolkata and Chennai.
- **Redevelopment of government colonies:** Delhi has ~30 government colonies (covering ~1,100 hectares of prime land) which were built 50-60 years ago to provide housing for central government employees. Many of these colonies are now being redeveloped with the funds required for construction being generated by commercial monetisation of surplus land available.

Similarly, a large number of educational institutions (like IITs/IIMs) and healthcare institutes (like AIIMS) are being planned in various states. Considering that the average cost of building an AIIMS has been ~INR14bn per institute, the development of these institutions is likely to throw up sizeable opportunities for contractors like SINF.

- **Higher ordering by NBCC:** NBCC is at the forefront of increasing public sector capex in the buildings space. Backed by a healthy order book (book-to-bill at ~13x), NBCC has shifted focus to execution now. It wants to reduce the number of projects under implementation from ~350 currently to ~100. To achieve this, it is shifting to awarding design-build contracts/turnkey contracts of INR10bn plus. This will benefit established contractors like SINF which have experience of delivering large-sized projects.

Table 1: SINF—Rich experience in government/institutional buildings space

Sl No	Client	Particulars	Contract value (INR mn)
1	Delhi Development Authority	Construction of HIG accommodation at Dwarka, New Delhi	6,180
2	SBI Officer's Association	Construction of Residential township of 21 towers at Chennai	5,507
3	NBCC	Institutional buildings in Bhubaneswar, Odisha	5,240
4	IIT Indore	Construction of permanent campus of IIT Indore at Indore	3,651
5	IIM Udaipur	Building & housing at Udaipur, Rajasthan	2,886
6	Government of Karnataka	Construction of 350 bed hospital complex for Sri Jayadeva Institute at Mysore	1,360

Source: Company, Edelweiss research

SINF is well placed to benefit from increasing government outlay on the buildings space. It has identified public sector/institutional buildings segment as a major growth driver in future. A list of its major orders in this segment indicates that it is already straddling the entire gamut of opportunities—housing, educational and healthcare—in this segment. The fact that it is amongst the top 4-5 companies in India as far as pre-qualification strength in the buildings domain is concerned, will enable it to capture large opportunities going ahead, in our view.

Focusing on technical complexity in road segment

The NDA government has historically placed high emphasis on the roads sector. Various policy/regulatory decisions taken by the government have led to road project awards in FY17 crossing 16,000km, ~350% higher compared to FY14, while road construction has nearly doubled over FY14-17.

The government now targets to take road investments to a whole new level (["Government's infra push: Potent booster"](#)). Over the next five years, under the *Bharatmala* programme, the government is looking to spend INR6.92tn in the road sector to construct 83,677km of roads. These targets are ~190% higher compared to milestones of the past five years (FY13-17).

Historically, SINF has stayed away from plain-vanilla road EPC projects. It has concentrated on projects which have high structural complexity and require good design skills. As a result, it has won many projects in North East India, where a combination of difficult terrain and technical complexity ensure that competition for projects is low.

Table 2: SINF has focussed on road projects which require robust technical strengths

Sl No	Client	Particulars	Contract value (INR mn)
1	NHIDCL	4 laning of Dolabari to Jamuguri Section in Assam under SARDP NE	7,441
2	NHIDCL	4/6 laning of Daboka -Dimapur bypass	3,870
3	NHAI	4 laning of NH-37 from Rangagara to Kaliabor Tinali in Assam	1,962
4	NHAI	Widening & Strengthening of existing National Highway from 2 lane to 4 lane of Buni (West Bengal border) to Assam	1,292

Source: Company, Edelweiss research

Note: NHAI: National Highways Authority of India

NHIDCL: National Highways and Infrastructure Development Corporation

The *Bharatmala* programme targets development of a North East Economic corridor to enhance connectivity to state capitals and key towns. It also focuses on ensuring seamless connectivity with neighboring countries to make North-East India a hub of East Asia. In addition, it involves development of 2,000km of border and international connectivity roads. We believe, the focus on North East India/border roads bodes well for SINF.

In the near term, road projects worth INR1.2tn (~INR800bn hybrid annuity and balance on EPC mode) are up for grabs over the next couple of quarters. SINF will focus on road EPC projects to bulk up its order book.

Amongst few experienced players in railways domain

Indian Railways (IR) is in midst of a massive INR8.56tn capex plan over 2015-19, ~90% more than the combined capex done in past 15 years ([Railways: Capex gathering steam](#)). The plan, which focuses on network expansion, lays great emphasis on improving freight carrying capacity through new line as well as gauge conversion and doubling/3rd/4th line projects.

Comparatively small package sizes of IR projects had historically precluded listed companies from bidding for rail projects. However, with the benefits of assured funding, contractors are increasingly able to tap the surging rail opportunities. SINF is one of the few large-sized EPC companies in India which have the experience of undertaking railway projects.

Table 3: SINF amongst few EPC companies with experience in railway segment

Sl No	Client	Particulars	Contract value (INR mn)
1	Rail Vikas Nigam Ltd	Construction of Roadbed, bridges, track linking between Kota & Bina (130.975 km) in Madhya Pradesh & Rajasthan	3,034
2	Simplex Angelique (JV)	Railway project between Utraitia Junction and Rae Bareli Junction	2,307
3	Rail Vikas Nigam Ltd	Construction of roadbed, bridges, track linking between Kota & Bina (62.81 km) in Madhya Pradesh & Rajasthan	1,965

Source: Company, Edelweiss research

With railways' capex programme gathering pace, we foresee healthy order inflow opportunities for SINF in this segment. We believe, the railway space can be a significant opportunity for the company going ahead.

Straddling entire gamut of work in urban infra space

With India's urban population projected to touch 814mn by 2050, the government aims to tackle the issue of dilapidated urban infra via programmes like Smart Cities and AMRUT. These schemes with central government outlay of INR1tn are redefining the urban landscape in the country.

Till now, a total investment of INR1.9tn has been proposed by 90 cities under their Smart City plans. Under the programme, tendering has already started for 283 projects with a cost of INR165bn, while detailed project reports (DPRs) are being prepared for 2,029 projects worth INR1tn.

Table 4: SINF has executed projects in various sub-segments of urban infra space

Sl No	Client	Particulars	Contract value (INR mn)
1	Metro Link Express for Gandhinagar and Ahmedabad	Metro rail work with six stations	7,247
2	Bangalore Metro Rail Corp	Construction of viaduct and 5 stations of Bangalore Metro Phase 2	5,787
3	Govt of West Bengal	Design, construction and commissioning of pumping main for conveyance of treated water in Diamond Harbour	4,588
4	Mumbai Metropolitan Development Authority	Construction of viaduct and 4 stations of Line 7 of Mumbai Metro	3,483
5	Bangalore Metro Rail Corp	Construction of elevated structures of Bangalore Metro Phase 2	2,987
6	SIL - JBPL - IV	Urban Sewerage work at Halisahar , West Bengal	2,684

Source: Company, Edelweiss research

SINF has demonstrated its ability to undertake various types of urban infra works. It is one of the prominent contractors as far as metro rail projects in the country are concerned. The company has been associated with metro rail projects in cities like Mumbai, Delhi, Kolkata, Ahmedabad, Pune, and Bengaluru. With India likely to have operational metro projects in ~25 cities by 2025 (compared to 10 cities today), the opportunities for SINF in this segment are immense.

Apart from metro projects, SINF also undertakes projects for water supply and sewerage works in the urban infra domain. Rising urbanisation is leading to large quantum of works in this vertical. In addition, SINF has also completed civil construction for airports like Jaipur, Udaipur, Durgapur Aerotropolis, Vijayawada, etc. With India looking to increase airport capacity by 5x to handle 1bn passenger trips per year, there is lot of scope for the company in this segment.

Thus, SINF's capabilities span the entire spectrum of urban infra space; this is likely to burnish its prospects going ahead.

To pursue opportunistic approach in other segments

Apart from the segments mentioned above, SINF also has capabilities in sectors like power, industrial, marine, piling, etc. In the industrial segment, the company has completed projects across various industries—cement, steel, aluminum, copper, engineering, automobile, petrochemicals, oil & gas, fertilizers, paper, textiles, chemicals, pharmaceuticals and shipyard.

Similarly, SINF is amongst the most experienced contractors as far as power projects (thermal, nuclear, hydel) are concerned. It has undertaken works for NTPC, BHEL, NHPC, Vedanta, Tata Power, Jindal, Bharat Forge, etc., in the past. It has also made a mark in the power T&D segment, which currently contributes ~4% to SINF's order book.

In the marine segment, the company has been associated with many major ports in the country. The company's area of operations includes design & construction of on-shore and

off-shore structures. SINF has worked on Kochi, JNPT, Karaikal, Paradip and Mundra ports for clients like DP World, Maersk, Adani, among others.

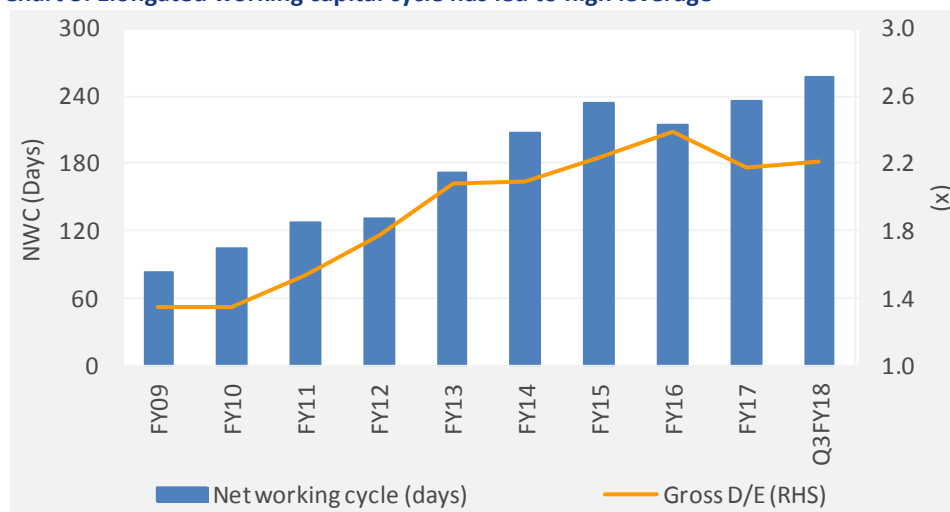
In these segments, the company will follow an opportunistic approach going ahead. It will focus on projects where payment terms are better so that capital can be utilised efficiently.

Working capital improvement: Prime focus

SINF has historically been conservative on the capital raising front. Many of its peers who have had exposure to asset ownership businesses like BOT/real estate/power generation were forced to resort to frequent fund raising. On the other hand, SINF has largely remained a plain-vanilla EPC contractor with minimal BOT exposure; as a result, its last fund raising exercise was a decade ago in 2007.

However, SINF has faced its own share of problems on the working capital front. One of the major issues over the past couple of years, which has constrained revenue growth, has been its elongated working capital cycle.

Chart 3: Elongated working capital cycle has led to high leverage



Source: Company, Edelweiss research

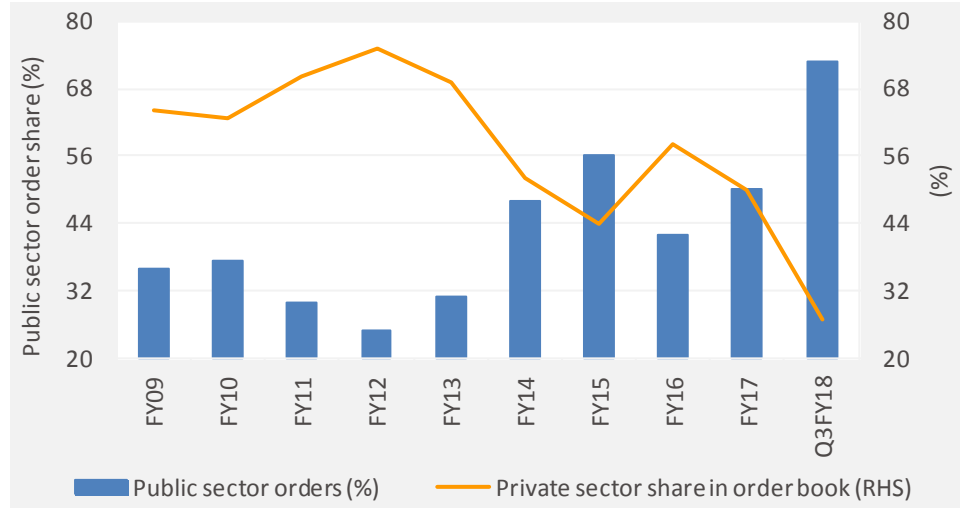
Note: NWC = Net working capital cycle = net current assets ex cash

Deterioration in the working capital cycle, along with no capital raising exercise, has meant that SINF's leverage levels have kept rising.

However, going ahead, the company is fairly confident of improving its working capital cycle. It targets to bring it down to ~130 days over the next couple of years.

Management attributes the following factors for likely improvement in NWC going ahead:

- Declining share of private sector orders:** One of the major reasons behind the company's high working capital intensity has been the large share of private sector orders in order book. Historically, a lion's share of the company's orders came from the private sector in power generation, industrial and real estate (private developers) segments. As a result, its working capital cycle at ~90-100 days (in FY08-09) used to be amongst the best in the EPC space.

Chart 4: Private sector share in SINF's order book has fallen to the lowest in a decade


Source: Company, Edelweiss research

The deterioration in the balance of India Inc., over the past five-six years due to muted industrial growth, realty sector blues etc., led to slowdown in private sector capex. This led to lengthening of SINF's working capital cycle.

However, expanding footprint of the public sector in the capex cycle is likely to lead to a reversal of the trend of deteriorating NWC for the company. Currently, ~75-80% of SINF's order intake is from the public sector. At Q3FY18 end, public sector projects contributed ~73% to the order book, the highest in the past decade. Management indicated that the public sector will account for ~70-75% of overall order book going ahead. It is taking orders only from central government/PSUs/institutions and staying away from state government jobs.

We believe, sharpening public sector focus will aid SINF prune its working capital requirements. Most EPC companies with large public sector share in order book have a working capital cycle of ~120-150 days. Consequently, we expect the change in SINF's approach to lead to reduction in its working capital levels going ahead.

- **Debtor recovery:** Rigorous follow up with clients has aided SINF realise old debtors worth INR1.95bn during Q3FY18 and INR350mn in Q4FY18. It expects to realise INR3bn debtors in Feb-Mar 2018 to reach an overall recovery level of INR5bn in FY18. It is targeting INR8bn debtor recovery in FY19.
- **Regulatory measures brighten prospects:** Historically, SINF used to be a major contractor for real estate developers. The realty slowdown adversely impacted the payment cycle from developers, leading to elongation in SINF's working capital cycle.

However, we believe, implementation of RERA will greatly benefit real estate contractors like SINF. First, it will lead to consolidation in the realty sector, thereby improving prospects of organised developers. In addition, much greater control on project-specific cash flows will safeguard contractors' cash flows, leading to better payment cycle for them. As a result, we believe, SINF's NWC from the realty segment will improve going ahead.

- **Arbitration claims:** The central government's directive to speed up the process for resolution of arbitration claims of contractors has led to a much faster release of arbitration claims from various government departments/PSUs. SINF also has large amount of arbitration claims from which it expects release of significant amount of funds going ahead.

As at Q3FY18 end, of its total arbitration claims worth ~INR22.6bn, it had already won ~INR4.6bn, while balance were still under arbitration. In addition, the company expects to lodge more claims going ahead, which will take the overall claims quantum to ~INR30bn. The company expects significant reduction in its NWC post the release of arbitration claims amount.

Value unlocking potential of road BOT project improves

SINF has largely stayed away from asset ownership ventures. It has exposure to only one road BOT project—Chandikhole-Jagatpur-Bhubaneswar—where it has 34% stake (with balance stake held by SREI Group and Galfar). This project, which involves six-laning of Chandikhole-Bhubaneswar section of NH-5, is housed in an SPV called Shree Jagannath Expressways (SJEPL). The project has already achieved provisional completion certificate.

We believe, the project has large value unlocking potential for the company due to following factors:

- **Robust traffic growth:** Over the past couple of years, the project has witnessed healthy traffic growth—16% jump in FY17 (in terms of passenger car units).

Going ahead, improvement in mining traffic along with development of Smart Cities in Bhubaneswar and Raipur can further aid traffic figures. The expansion of Paradip port to ramp up overall cargo handling capacity to 330mt, capacity expansion plan in Kalinga Nagar SEZ (major steel cluster near Chandikhol) and revival in iron ore cargo volumes at Paradip port entail the potential to significantly bolster traffic on the project.

- **Refinancing:** The project SPV has recently completed refinancing at an interest rate of 9.62%, resulting in a reduction of ~270bps in interest rate. This will boost its cash flows going ahead.
- SJEPL has won arbitration award of INR1.04bn from NHA. This will improve its cash flow.
- **Cash profit:** Despite being in early stages of operation (concession period extends for another ~20 years), the project is already making cash profit. With a long tail, we believe, there is significant cash flow generation potential for the project.

Going ahead, SINF has the option to monetise its stake in the project and use the proceeds to prune debt. Considering the project's strong toll collection, we believe this can aid SINF in a meaningful way as far as debt reduction is concerned.

Q3FY18 result: Conference call highlights

- Overseas segment contributed 9% to revenue and 3% to order intake during 9mFY18; share in order book at 5%.

Chart 5: Order book break up

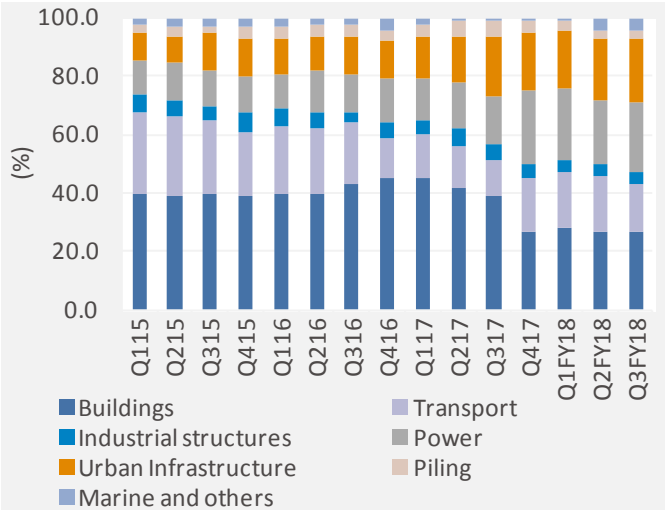


Chart 6: Revenue break up

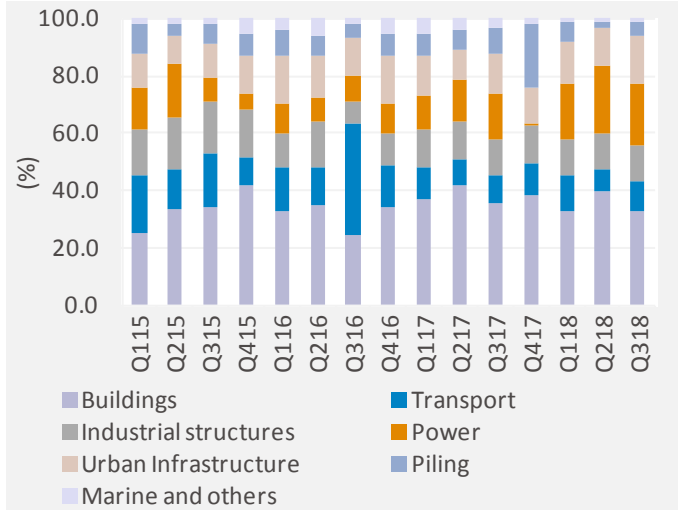
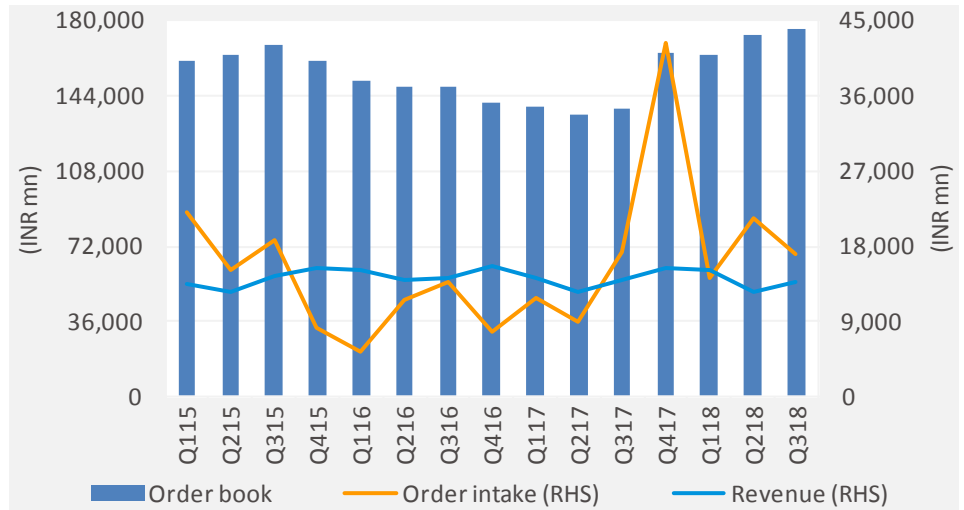


Chart 7: Order book, order intake and revenue



Source: Company, Edelweiss research

Outlook & valuation: Set for robust growth; retain 'BUY'

We believe, SINF's diversified presence across infra verticals will enable it to capture a significant share of the opportunities arising from the capex recovery spearheaded by the public sector. As a quality contractor which has earned its spurs by executing marquee contracts for the private sector, we believe the company is in pole position to corner a large pie of opportunities unfolding in the Indian infra space.

Over the past couple of years, a leveraged balance sheet due to elongated working capital had constrained its top-line growth. However, going ahead, likely improvement in working capital cycle due to increasing public sector exposure and regulatory measures will lower debt burden, in our view. We forecast SINF to deliver ~40% PAT CAGR over FY18-20. We maintain 'BUY' with SOTP-based target price of INR826 (INR764 from EPC business at 16x FY20E EPS and balance from DCF based valuation of BOT project) as well roll over to FY20E.

Financial snapshot

(INR mn)

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	YTD FY18	FY18E	FY19E
Net revenues	13,601	13,864	(1.9)	12,460	9.2	41,180	57,244	64,906
Direct costs	4,101	4,073	0.7	3,681	11.4	12,989	23,164	26,264
Staff costs	1,312	5,696	(77.0)	1,404	(6.6)	4,119	23,009	26,089
Other expenses	6,403	2,502	155.9	5,680	12.7	18,864	3,926	4,452
Total expenditure	11,816	12,271	(3.7)	10,765	9.8	35,971	46,173	52,353
EBITDA	1,785	1,593	12.0	1,696	5.3	5,209	7,145	8,101
Depreciation	454	490	(7.4)	470	(3.4)	1,403	1,879	2,056
EBIT	1,331	1,103	20.6	1,226	8.6	3,806	5,266	6,045
Other income	217	344	(36.9)	294	(26.2)	758	986	975
Interest	1,147	1,165	(1.5)	1,176	(2.4)	3,455	4,691	4,726
Add: Prior period items								
Add: Exceptional items								
Profit before tax	401	283	41.8	344	16.5	1,109	1,561	2,294
Provision for taxes	90	99	(8.8)	66	35.7	233	331	780
Reported profit	311	184	68.9	278	11.9	876	1,230	1,514
Adjusted profit	311	184	68.9	278	11.9	876	1,230	1,514
Equity capital	99	99		99		99	99	99
Diluted shares (mn)	50	50		50		50	50	50
Adjusted Diluted EPS	6.3	3.7	68.9	5.6	11.9	17.6	24.8	30.5
as a % of net revenues								
Direct costs	30.1	29.4		29.5		31.5	40.5	40.5
Other expenses	56.7	59.1		56.9		55.8	47.1	47.1
EBITDA	13.1	11.5		13.6		12.6	12.5	12.5
Reported profit	2.3	1.3		2.2		2.1	2.1	2.3
Tax rate	22.5	34.9		19.3		21.0	21.2	34.0

Company Description

SINF is a fast growing infrastructure construction company present across all verticals within the infrastructure space. A piling contractor by origin, SINF has ramped up its capabilities and currently executes projects in the power, industrial structures, buildings, roads, railways, marine, and urban infrastructure segments. The company emphasises on diversification and is thus focused on building a versatile business model, in terms of segmental mix as well as geographical contribution. SINF has successfully entered the Middle Eastern markets and is now looking at repeating its success story in other geographies.

Investment Theme

SINF is one of the few pure contracting plays available in the construction industry. Its strong technical and execution capabilities are likely to lead to a robust growth in revenues as well as margins going forward. Increasing share of EPC projects in the order book accompanied with the advantages of building a business model (leaning overseas) is likely to result in long-term benefits for the company. Continued preference for pure contracting space with a focus on short duration projects along with risk mitigation by way of geographical and business mix diversification provides the company with a great platform to achieve solid growth going forward.

Key Risks

Any delay in project execution in the domestic or overseas markets may lead to slower than-anticipated revenue growth impacting margins and liquidity negatively. As the private sector dominates its order book, any slowdown in the corporate capex will impact the revenue growth negatively.

Financial Statements

Key Assumptions

Year to March	FY17	FY18E	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Company				
Raw Material (% net rev)	29.3	29.0	29.0	28.9
Order intake (INR bn)	81	82	102	122
Y-o-Y growth (%)	108.2	1.2	24.5	19.7
Book-to-bill ratio (x)	2.9	3.3	3.5	3.5
Order backlog (INR bn)	165	189	226	271
Order backlog growth (%)	17.4	14.7	19.3	19.8
Revenue growth (% yoy)	(5)	2	13	18
Capex (INR mn)	805	1,025	2,000	2,000
Job work (as % of sales)	30.9	31.0	31.0	31.0
Other mfg(as % of sales)	11.5	11.5	11.5	11.5
Salary (% of revenues)	9.2	9.2	9.2	9.2
Other admin (% net rev)	6.9	6.9	6.9	6.9
Avg. Interest rate (%)	13.2	12.6	12.6	12.6
Depreciation rate (%)	13.0	11.6	11.6	11.6
Dividend per share	0.5	0.5	0.5	0.5
Inc. in invts (INR mn)	58	50	-	-
Debtor days	329	350	330	301
Inventory days	67	65	59	56
Payable days	147	154	147	144
Other creditors days	145	157	147	144
Provisions days	1	2	2	2
Tax rate (%)	10.6	21.2	34.0	34.0
Incremental debt	(737)	1,350	-	(1,500)

Income statement

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Income from operations	56,075	57,244	64,906	76,845
Direct costs	22,859	23,164	26,264	31,018
Employee costs	22,483	23,009	26,089	30,888
Other Expenses	3,846	3,926	4,452	5,271
Total operating expenses	49,188	50,099	56,805	67,177
EBITDA	6,887	7,145	8,101	9,668
Depreciation	1,978	1,879	2,056	2,288
EBIT	4,909	5,266	6,045	7,380
Add: Other income	891	986	975	845
Less: Interest Expense	4,454	4,691	4,726	4,631
Profit Before Tax	1,346	1,561	2,294	3,594
Less: Provision for Tax	143	331	780	1,222
Reported Profit	1,203	1,230	1,514	2,372
Adjusted Profit	1,203	1,230	1,514	2,372
Shares o /s (mn)	50	50	50	50
Adjusted Basic EPS	24.2	24.8	30.5	47.8
Diluted shares o/s (mn)	50	50	50	50
Adjusted Diluted EPS	24.2	24.8	30.5	47.8
Adjusted Cash EPS	65.1	62.6	71.9	93.9
Dividend per share (DPS)	0.5	0.5	0.5	0.5
Dividend Payout Ratio (%)	2.5	2.4	2.0	1.3

Common size metrics

Year to March	FY17	FY18E	FY19E	FY20E
Operating expenses	87.7	87.5	87.5	87.4
EBITDA margins	12.3	12.5	12.5	12.6
Adjusted profit margins	2.1	2.1	2.3	3.1

Growth ratios (%)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	(5.0)	2.1	13.4	18.4
EBITDA	0.9	3.7	13.4	19.3
PBT	(9.2)	16.0	47.0	56.7
Adjusted Profit	13.3	2.3	23.1	56.7
EPS	13.3	2.3	23.1	56.7

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18E	FY19E	FY20E	
Share capital	99	99	99	99	
Reserves & Surplus	15,204	16,404	17,888	20,230	
Shareholders' funds	15,303	16,503	17,987	20,329	
Short term borrowings	27,450	28,800	28,800	28,800	
Long term borrowings	5,804	5,804	5,804	4,304	
Total Borrowings	33,254	34,604	34,604	33,104	
Long Term Liabilities	121	121	121	121	
Def. Tax Liability (net)	1,064	1,064	1,064	1,064	
Sources of funds	49,742	52,293	53,777	54,619	
Gross Block	15,607	16,607	18,607	20,607	
Net Block	11,710	10,842	10,799	10,525	
Capital work in progress	115	115	115	115	
Intangible Assets	20	34	21	7	
Total Fixed Assets	11,845	10,991	10,935	10,647	
Non current investments	1,316	1,366	1,366	1,366	
Cash and Equivalents	352	655	675	553	
Inventories	7,464	7,111	7,890	8,944	
Sundry Debtors	52,886	56,898	60,467	66,275	
Loans & Advances	6,058	6,470	7,142	8,455	
Other Current Assets	4,256	4,233	4,799	5,682	
Current Assets (ex cash)	70,664	74,711	80,298	89,355	
Trade payable	17,119	17,414	19,961	23,325	
Other Current Liab	17,315	18,016	19,535	23,977	
Total Current Liab	34,434	35,430	39,496	47,302	
Net Curr Assets-ex cash	36,230	39,282	40,802	42,054	
Uses of funds	49,742	52,293	53,777	54,619	
BVPS (INR)	308.2	332.4	362.3	409.5	

Free cash flow		(INR mn)			
Year to March	FY17	FY18E	FY19E	FY20E	
Reported Profit	1,203	1,230	1,514	2,372	
Add: Depreciation	1,978	1,879	2,056	2,288	
Interest (Net of Tax)	3,980	3,697	3,119	3,057	
Others	(6,965)	(9,801)	(6,159)	(5,560)	
Less: Changes in WC	(1,518)	(3,052)	(1,520)	(1,252)	
Operating cash flow	1,714	57	2,050	3,408	
Less: Capex	805	1,025	2,000	2,000	
Free Cash Flow	909	(968)	50	1,408	

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Simplex Infrastructures Ltd	444	8.8	8.0	1.7	1.6	7.7	6.8
Hindustan Construction Co.	548	12.0	10.0	1.3	1.3	0.5	1.0
Nagarjuna Construction Co	1,170	12.6	9.4	1.9	1.8	6.3	9.2
Median	-	12.0	9.4	1.7	1.6	6.3	6.8
AVERAGE	-	11.1	9.2	1.6	1.6	4.9	5.6

Source: Edelweiss research

Cash flow metrics		FY17	FY18E	FY19E	FY20E
Year to March					
Operating cash flow	1,714	57	2,050	3,408	
Investing cash flow	(863)	(1,075)	(2,000)	(2,000)	
Financing cash flow	(767)	1,320	(30)	(1,530)	
Net cash Flow	85	302	20	(122)	
Capex	(805)	(1,025)	(2,000)	(2,000)	
Dividend paid	(30)	(30)	(30)	(30)	

Profitability and efficiency ratios

Year to March	FY17	FY18E	FY19E	FY20E
ROAE (%)	8.1	7.7	8.8	12.4
ROACE (%)	12.0	12.5	13.5	15.5
Debtors Days	329	350	330	301
Payable Days	292	311	294	288
Cash Conversion Cycle	103	104	95	69
Current Ratio	2.1	2.1	2.1	1.9
Gross Debt/EBITDA	4.8	4.8	4.3	3.4
Gross Debt/Equity	2.2	2.1	1.9	1.6
Adjusted Debt/Equity	2.2	2.1	1.9	1.6
Net Debt/Equity	2.2	2.1	1.9	1.6
Interest Coverage Ratio	1.1	1.1	1.3	1.6

Operating ratios

Year to March	FY17	FY18E	FY19E	FY20E
Total Asset Turnover	1.1	1.1	1.2	1.4
Fixed Asset Turnover	4.6	5.1	6.0	7.2
Equity Turnover	3.8	3.6	3.8	4.0

Valuation parameters

Year to March	FY17	FY18E	FY19E	FY20E
Adj. Diluted EPS (INR)	24.2	24.8	30.5	47.8
Y-o-Y growth (%)	13.3	2.3	23.1	56.7
Adjusted Cash EPS (INR)	65.1	62.6	71.9	93.9
Diluted P/E (x) *	21.2	20.8	16.9	10.8
P/B (x)	1.9	1.7	1.6	1.4
EV / Sales (x) *	1.0	1.0	0.9	0.8
EV / EBITDA (x) *	8.5	8.3	7.3	6.0
Dividend Yield (%)	0.1	0.1	0.1	0.1

*for implied construction business

Additional Data

Directors Data

Mr. Rajiv Mundhra	Promoter and Executive Chairman	Mr. S. Dutta	Non-Independent Executive Director
Mr. Atindra Narayan Basu	Non-Independent Executive Director	Mr. Dipak Narayan Basu	Non-Independent Executive Director
Mr. Sheo Kishan Damani	Non-Executive Independent Director	Mr. Asutosh Sen	Non-Executive Independent Director
Ms. Leena Ghosh	Non-Executive Independent Director	Mr.N.N. Bhattacharyya	Non-Executive Independent Director

Auditors - Price Waterhouse, H.S. Bhattacharjee & Co.

**as per latest annual report*

Holding – Top 6

	Perc. Holding		Perc. Holding
HDFC Asset Management	8.96	Reliance Capital Asset Management	8.67
State Bank of India	1.11	South Asia Finvest	1.13
Nippon Life Insurance company	0.62	Dimension fund advisor	0.45

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
30 Mar 2017	BABA BASUKI DISTRIBUTORS PVT LTD	Buy	30000.00
30 Mar 2017	BITHAL DAS MUNDHRA	Sell	29300.00
21 Mar 2017	SIMPLEX INFRAPROPERTIES PRIVATE LIMITED	Buy	136000.00
20 Mar 2017	SIMPLEX INFRAPROPERTIES PRIVATE LIMITED	Buy	136000.00

**as per last available data*

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Aditya Narain

Head of Research

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Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure

Recent Research

Date	Company	Title	Price (INR)	Recos
15-Feb-18	J Kumar Infraprojects	Execution pick up brings cheer; <i>Result Update</i>	341	Buy
15-Feb-18	PNC Infratech	Land acquisition challenges remain; <i>Result Update</i>	173	Buy
15-Feb-18	NBCC	Focus on execution; <i>Result Update</i>	208	Hold

Distribution of Ratings / Market Cap

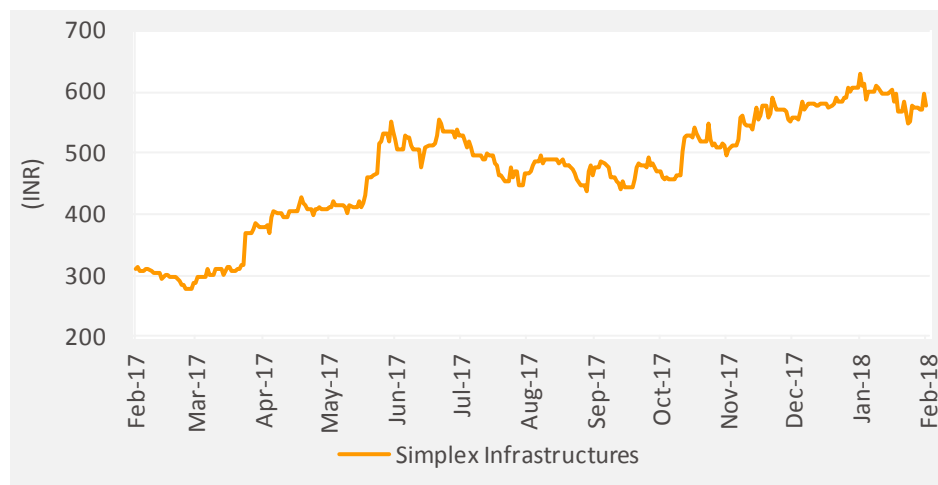
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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