India Midcaps

RESULT UPDATE

SIMPLEX INFRASTRUCTURES

Gearing burdens strong growth potential

India Equity Research| Infrastructure - Construction

Simplex Infrastructure (SINF) posted strong 19% YoY growth in Q2FY19 revenue to INR14.8bn on the back of execution ramp-up. EBITDA margin, at 11.9%, is in line with management's 12% guidance. However, lower-than-expected order inflow (~INR36bn year to date, including L1 projects) led management to trim FY19 and FY20 revenue guidance to INR70–75bn and INR85bn, respectively. Higher order intake and improvement in balance sheet are key to SINF's growth, in our view (*Simplex Infrastructure – Braving the odds*). While we are cutting FY19E earnings by 10% due to lower other income, FY20E earnings are unchanged. We maintain 'BUY' with an SOTP-based target price of INR338.

Muted order inflow underpins guidance cut

SINF has won orders of ~INR36bn year to date, including projects worth ~INR18bn in which it is L1. The lower-than-expected order inflow led management to prune FY19 and FY20 revenue guidance to INR70–75bn and INR85bn (from INR75bn and INR85–90bn), respectively. However, management expects order inflow to spike in the run-up to elections (current bidding pipeline is ~INR330bn) and is confident of meeting its FY19 order-accretion guidance of INR70–80bn.

Balance sheet strength continues to be overhang

While debt at the end of Q2FY19 increased sequentially by ~INR4.5bn to INR36bn, management attributed the rise to a hold-up in quarter-end payments; debt as of today stands at ~INR34bn. The company has recovered ~INR2.4bn of old debtors to date, and expects to recover at least ~INR7bn in FY19 (versus guidance of INR8bn). Management aims to pare debt to ~INR30bn by end-FY19 and ~INR24bn by end-FY20. Progress on debt reduction and debtors recovery are the key variables.

Outlook and valuation: Balance sheet key; maintain 'BUY'

SINF's diversified presence across infrastructure verticals allows it to tap opportunities across segments. However, amid recent systemic liquidity concerns, improvement in balance sheet strength would be the catalyst for stock performance in our view. Until such concerns abate, we believe the stock will trade at a discount to its fair value. We are cutting FY19E earnings by 10%. Maintain **'BUY'** with an SOTP-based TP of INR338 (INR284 from the EPC business at 6x FY20E EPS and the balance from BOT project).

Financials (Standalone) **(INR mn)**

Year to March	Q2FY19	Q2FY18	*% change*	Q1FY19	*% change*	FY18	FY19E	FY20E
Revenues	14,791	12,460	*18.7*	15,842	*(6.6)*	57,662	74,181	85,345
EBITDA	1,760	1,696	*3.8*	1,770	*(0.6)*	6,689	8,457	9,815
Adj profit	244	278	*(12.0)*	283	*(13.6)*	1,170	1,654	2,854
Dil. EPS (INR)	4.1	5.6	*(25.9)*	5.0	*(16.8)*	23.6	28.0	47.3
Diluted P/E (x) *						6.9	5.8	3.4
EV/EBITDA (x) *						6.3	4.8	3.8
ROAE (%)						7.4	8.4	11.5

** for implied construction business*

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

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

CMP	: INR 216
Target Price	: INR 338
52-week range (INR)	: 655 / 187
Share in issue (mn)	: 56.5
M cap (INR bn/USD mn)	: 12 / 171
Avg. Daily Vol. BSE/NSE ('000)	: 44.4

SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	49.3	49.3	56.3
MF's, FI's & BKs	20.9	21.1	18.6
FII's	9.6	9.6	2.0
Others	20.1	20.0	23.0

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	5.8	(1.6)	(7.4)
3 months	(8.6)	(47.6)	(39.1)
12 months	(11.3)	(54.2)	(42.9)

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Other highlights

- **Revenue growth**: Q2FY19 revenue growth came in at ~19% YoY. Management's FY19 revenue guidance implies H2FY19 revenue growth of ~45% YoY. It is confident of achieving this guidance as multiple projects (worth ~INR40bn overall), which were slow-moving/had stalled during Q2FY19, are expected to resume shortly and contribute significantly to H2FY19 revenue. Some of these are:

  - **Mumbai Metro (DN Nagar to BKC)** – This project was stalled on account of a temporary stay issued by the high court as a result of a public interest litigation. This is expected to be resolved shortly, and work is expected to commence immediately thereafter.

  - **Projects in Kochi and North East** – These projects were not moving on account of the heavy floods in these areas during Q2FY19. As the flood water has receded, the work would resume.

  - **A road project in West Bengal** – The Appointed Date has been received and the work is expected to get into full swing shortly.

- **Chandrikhol BOT project**: The term sheet for the stake sale in this project is in advanced stages of finalisation and management is confident that ~INR3bn (SINF's share) should be received by February 2019, which will be used to pare debt.

- **Recovery of old debtors**: INR2.35bn of old debtors had been recovered at end-Q2FY19. Management expects to recover ~INR7bn in FY19 (versus target of INR8bn).

  A receivable to the tune of INR1.04bn due from Abhijeet Power was written off completely during the quarter. While INR530mn has been adjusted against ECL reserves, INR510mn has been included in 'Other Expenses' in the income statement. The impact of this INR510mn has been partially compensated for by a write-back of VAT liability of INR380mn; thus, this write- off does not have any major impact on earnings.

- **Arbitration claims:** As on date, the total amount of arbitration is ~INR19bn, out of which ~INR5bn has been awarded in SINF's favour and the balance is still in the arbitration process. ~INR270mn has been received to date. Management expects to receive INR2–3bn of arbitration claims by FY20.

- **Guidance**:

  - **EBITDA margin** – 12% each for FY19 and FY20.

  - **Order inflows** – INR70-80bn in FY19 and INR100bn in FY20. The current bid pipeline is ~INR330bn with projects in the power, industrial, railways, buildings and housing, sewerage and bridges segments.

  - **Debt** – INR29-31bn at end-FY19 and INR24bn at end-FY20

  - **Capex** – INR500mn in H2FY19 (INR500mn incurred in H1FY19) and INR1.5bn in FY20

Financial snapshot (INR mn)

Year to March	Q2FY19	Q2FY18	*% change*	Q1FY19	*% change*	YTD19	FY19E	FY20E
Net revenues	14,791	12,460	*18.7*	15,842	*(6.6)*	30,633	74,181	85,345
Direct costs	4,826	3,697	*30.5*	5,755	*(16.1)*	10,582	32,326	37,106
Staff costs	1,238	1,417	*(12.6)*	1,253	*(1.2)*	2,490	27,793	31,976
Other expenses	6,967	5,651	*23.3*	7,064	*(1.4)*	14,031	5,605	6,449
Total expenditure	13,031	10,765	*21.1*	14,072	*(7.4)*	27,103	60,119	69,081
EBITDA	1,760	1,696	*3.8*	1,770	*(0.6)*	3,530	8,457	9,815
Depreciation	438	470	*(6.9)*	452	*(3.1)*	889	1,894	2,066
EBIT	1,323	1,226	*7.9*	1,319	*0.3*	2,641	6,563	7,750
Interest	1,182	1,176	*0.5*	1,211	*(2.4)*	2,393	4,970	4,510
Other income	207	294	*(29.8)*	296	*(30.3)*	503	913	1,085
Add: Prior period items								
Add: Exceptional items								
Profit before tax	347	344	*1.0*	404	*(14.1)*	752	2,506	4,325
Provision for taxes	103	66	*55.3*	122	*(15.2)*	225	852	1,470
Reported net profit	244	278	*(12.0)*	283	*(13.6)*	527	1,654	2,854
Adjusted Profit	244	278	*(12.0)*	283	*(13.6)*	527	1,654	2,854
Equity capital	118	99		114		118	118	121
Diluted shares (mn)	59	50		57		59	59	60
Adjusted Diluted EPS	4.1	5.6	*(25.9)*	5.0	*(16.8)*	9.1	28.0	47.3
As a % of net revenues								
Direct costs	32.6	29.7		36.3		34.5	43.6	43.5
Other expenses	55.5	56.7		52.5		54.0	45.0	45.0
EBITDA	11.9	13.6		11.2		11.6	11.4	11.5
Reported net profit	1.7	2.2		1.8		1.7	2.2	3.3
Tax rate	29.7	19.3		30.1		29.9	34.0	34.0

Company Description

SINF is an 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 emphasizes 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 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. In addition, any slowdown in the corporate capex will impact the revenue growth negatively.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.7	7.3	7.6
Inflation (Avg)	4.5	3.6	4.5	4.5
Repo rate (exit rate)	6.3	6.0	6.8	6.8
USD/INR (Avg)	67.1	64.5	70.0	72.0
Company				
Raw Material (% net rev)	29.3	32.8	33.0	32.9
Order intake (INR bn)	81	79	79	109
Y-o-Y growth (%)	*108.2*	*(2.3)*	-	*38.1*
Book-to-bill ratio (x)	2.9	3.2	2.6	2.5
Order backlog (INR bn)	165	186	191	214
Order backlog growth (%)	17.4	12.7	2.4	12.2
Revenue growth (% yoy)	(5)	3	29	15
Job work (as % of sales)	30.9	28.3	28.3	28.3
Other mfg(as % of sales)	11.5	10.6	10.6	10.6
Salary (% of revenues)	9.2	9.2	9.2	9.2
Other admin (% net rev)	8.2	7.6	7.6	7.6
Avg. Interest rate (%)	13.2	12.6	13.1	13.1
Depreciation rate (%)	13.0	11.3	10.8	10.8
Dividend per share	0.5	0.5	0.5	0.5
Inc. in invts (INR mn)	58	2	-	-
Tax rate (%)	10.6	22.5	34.0	34.0
Capex (INR mn)	805	958	1,525	1,525
Debtor days	329	357	319	307
Inventory days	67	66	59	61
Payable days	147	163	158	166
Other creditors days	145	161	148	153
Provisions days	1	1	1	1
Incremental debt	(737)	2,115	(3,500)	(3,500)

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	56,075	57,662	74,181	85,345
Direct costs	22,859	25,012	32,326	37,106
Employee costs	22,483	21,604	27,793	31,976
Other Expenses	4,571	4,357	5,605	6,449
Total operating expenses	49,913	50,973	65,724	75,530
EBITDA	6,162	6,689	8,457	9,815
Depreciation	1,978	1,834	1,894	2,066
EBIT	4,184	4,855	6,563	7,750
Less: Interest Expense	4,454	4,709	4,970	4,510
Add: Other income	1,615	1,363	913	1,085
Profit Before Tax	1,346	1,509	2,506	4,325
Less: Provision for Tax	143	340	852	1,470
Reported Profit	1,203	1,170	1,654	2,854
Adjusted Profit	1,203	1,170	1,654	2,854
Shares o /s (mn)	50	50	59	60
Adjusted Basic EPS	24.2	23.6	28.0	47.3
Diluted shares o/s (mn)	50	50	59	60
Adjusted Diluted EPS	24.2	23.6	28.0	47.3
Adjusted Cash EPS	65.1	63.4	60.2	81.6
Dividend per share (DPS)	0.5	0.5	0.5	0.5
Dividend Payout Ratio (%)	2.5	2.6	2.1	1.2

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	89.0	88.4	88.6	88.5
EBITDA margins	11.0	11.6	11.4	11.5
Net Profit margins	2.1	2.0	2.2	3.3

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(5.0)	2.8	28.6	15.1
EBITDA	(9.7)	8.6	26.4	16.1
PBT	(9.2)	12.1	66.1	72.6
Adjusted Profit	13.3	(2.8)	41.4	72.6
EPS	13.3	(2.8)	19.1	68.7

Balance sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	99	99	118	121
Reserves & Surplus	15,204	16,246	22,870	26,686
Shareholders' funds	15,303	16,346	22,988	26,806
Long term borrowings	5,804	5,511	5,511	4,011
Short term borrowings	27,450	29,858	26,358	24,358
Total Borrowings	33,254	35,369	31,869	28,369
Long Term Liabilities	121	103	103	103
Def. Tax Liability (net)	1,064	1,207	1,207	1,207
Sources of funds	**49,742**	**53,024**	**56,167**	**56,485**
Gross Block	15,607	16,571	18,071	19,571
Net Block	11,710	10,962	10,590	10,056
Capital work in progress	115	99	99	99
Intangible Assets	20	16	19	12
Total Fixed Assets	11,845	11,076	10,707	10,166
Non current investments	1,316	1,341	1,341	1,341
Cash and Equivalents	352	1,049	565	666
Inventories	7,464	7,561	9,671	10,798
Sundry Debtors	52,886	59,837	69,827	73,740
Loans & Advances	6,058	6,975	8,825	10,153
Other Current Assets	4,256	4,304	5,615	6,460
Current Assets (ex cash)	70,664	78,678	93,938	101,151
Trade payable	17,119	19,869	26,278	29,425
Other Current Liab	17,315	19,250	24,106	27,415
Total Current Liab	34,434	39,119	50,384	56,840
Net Curr Assets-ex cash	36,230	39,558	43,554	44,312
Uses of funds	**49,742**	**53,024**	**56,167**	**56,485**
BVPS (INR)	308.2	329.2	389.8	444.3

Free cash flow				(INR mn)
Year to March	**FY17**	**FY18**	**FY19E**	**FY20E**
Reported Profit	1,203	1,170	1,654	2,854
Add: Depreciation	1,978	1,834	1,894	2,066
Interest (Net of Tax)	3,980	3,649	3,280	2,976
Others	(3,929)	(3,506)	(3,280)	(2,976)
Less: Changes in WC	1,518	3,347	3,995	758
Operating cash flow	1,714	(200)	(447)	4,162
Less: Capex	805	958	1,525	1,525
Free Cash Flow	**909**	**(1,159)**	**(1,972)**	**2,637**

Cash flow metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	1,714	(200)	(447)	4,162
Financing cash flow	(767)	2,085	1,488	(2,536)
Investing cash flow	(863)	(960)	(1,525)	(1,525)
Net cash Flow	85	924	(484)	101
Capex	(805)	(958)	(1,525)	(1,525)
Dividend paid	(30)	(30)	(35)	(35)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	8.1	7.4	8.4	11.5
ROACE (%)	12.0	12.4	14.0	16.1
Inventory Days	67	66	59	61
Debtors Days	329	357	319	307
Payable Days	292	324	306	319
Cash Conversion Cycle	103	99	72	49
Current Ratio	2.1	2.0	1.9	1.8
Gross Debt/EBITDA	5.4	5.3	3.8	2.9
Gross Debt/Equity	2.2	2.2	1.4	1.1
Adjusted Debt/Equity	2.2	2.2	1.4	1.1
Net Debt/Equity	2.2	2.1	1.4	1.0
Interest Coverage Ratio	0.9	1.0	1.3	1.7

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.1	1.1	1.4	1.5
Fixed Asset Turnover	4.6	5.1	6.9	8.3
Equity Turnover	3.8	3.6	3.8	3.4

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	24.2	23.6	28.0	47.3
Y-o-Y growth (%)	*13.3*	*(2.8)*	*19.1*	*68.7*
Adjusted Cash EPS (INR)	65.1	63.4	60.2	81.6
Diluted P/E (x) *	6.7	6.9	5.8	3.4
P/B (x)	0.7	0.7	0.6	0.5
EV / Sales (x) *	0.7	0.7	0.6	0.4
EV / EBITDA (x) *	6.6	6.3	4.8	3.8
Dividend Yield (%)	0.2	0.2	0.2	0.2

** for implied construction business*

Peer comparison valuation

	Market cap	EV / EBITDA (X)		P/B (X)		ROAE (%)	
Name	(USD mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Simplex Infrastructures Ltd	171	4.8	3.8	0.6	0.5	8.4	11.5
Nagarjuna Construction Co	726	5.8	5.0	1.1	1.0	11.4	11.8
Median	-	5.3	4.4	0.8	0.7	9.9	11.6
AVERAGE	-	5.3	4.4	0.8	0.7	9.9	11.6

Source: Edelweiss research

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 - S.R. Batliboi & Co. LLP, H.S. Bhattacharjee & Co.

**as per latest annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
HDFC AMC	8.97	Reliance Capital	7.94
HSBC	2.44	Abu Dhabi Investment Authority	2.26
Kotak AMC	2.05	ICICI Prudential	2.02
Dimensional Fund Advisors	0.47	Edelweiss AMC	0.25
Baroda Pioneer MF	0.25	LIC Nomura	0.16

**as per latest available data*

Bulk Deals

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

**as per last available data*

Insider Trades

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

**as per last available data*

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

Ahluwalia Contracts, Ashoka Buildcon, Capacit'e Infraprojects Limited, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
15-Nov-18	**Ahluwalia Contracts**	Strong order inflow boosts growth potential; *Result Update*	318	Buy
15-Nov-18	**NBCC**	Muddled picture; *Result Update*	60	Hold
14-Nov-18	**J Kumar Infraprojects**	Execution remains robust; *Result Update*	150	Under Review

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

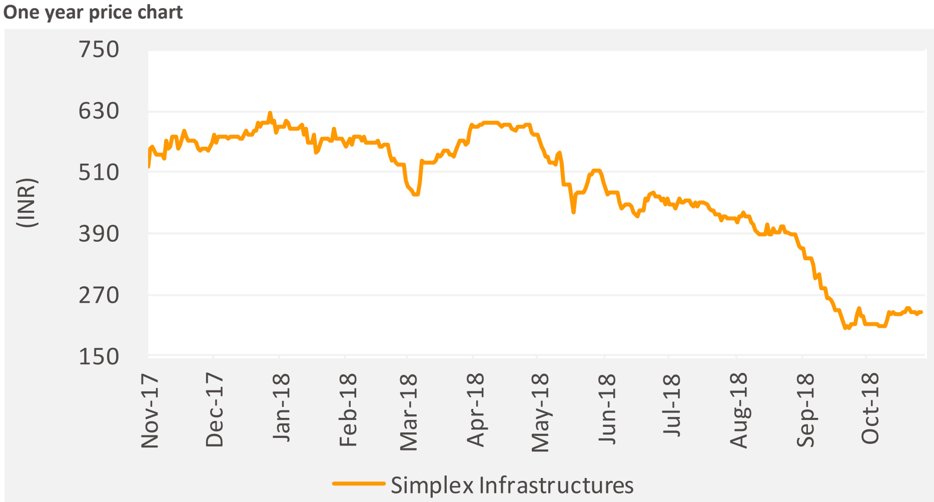
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 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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