

SIMPLEX INFRASTRUCTURES

Tepid quarter; balance sheet improvement key

India Equity Research | Infrastructure - Construction

Simplex Infrastructures (SINF) delivered only a 3% YoY rise in top line in Q3FY19 due to execution setbacks on projects in Northeast and West Bengal. PAT, however, shot up 17% YoY to INR362mn. Management has trimmed FY19/FY20 revenue guidance to INR65/75bn due to weaker-than-expected order accretion (~INR36bn year to date, including L1 projects) and an elevated working capital cycle (256 days). In our view, SINF must bag more orders and tighten its working capital cycle to get back on the growth path. All in all, we are revising down FY19E/FY20E earnings by 24%/38% in light of the company's constrained working capital, but maintain 'BUY' with a revised SoTP-based target price of INR245 (INR338 earlier) rolling over the valuation to June 2020E.

Order inflow weak; focus on better quality orders

YTD order-wins (including L1 projects) stand notably lower at ~INR36bn versus initial target of INR70–80bn (and now expected to be ~INR50bn). For FY20, management is targeting INR70–80bn in (versus INR80–90bn earlier) with focus on the ones that generate cash flow. Lower-than-expected order inflow spurred management to prune FY19/20 revenue guidance to INR65/75bn (from INR70–75/85bn).

High working capital cycle pulls down performance

Debt slid by ~INR360mn sequentially to ~INR35.4bn at end-Q3FY19. The company has recovered ~INR3.1bn of old debtors to date. Debt levels will decline further in case SINF is able to meet its target of recovering ~INR7bn in FY19; otherwise debt at end-FY19 will be INR33–35bn. Working capital cycle remains high at 256 days. Progress on this front, in our view, will be a key variable determining the company's growth trajectory.

Outlook and valuation: Leverage levels key; maintain 'BUY'

While SINF has a diversified presence across infrastructure verticals, its stretched balance sheet, which is stark amid the recent systemic liquidity issues, is a cause for concern. Improvement in balance sheet is, therefore, critical. We are cutting FY19E/FY20E earnings by 24%/38%. Maintain 'BUY' with a revised SoTP-based TP of INR245 (INR191 from the EPC business at 6x EPS and the balance from BOT project) as we roll over the valuation to June 2020E.

Financials (Standalone)						(INR mn)		
Year to March	Q3FY19	Q3FY18	% change	Q2FY19	% change	FY18	FY19E	FY20E
Revenues	14,034	13,601	3.2	14,791	(5.1)	57,662	61,272	68,546
EBITDA	1,789	1,785	0.3	1,760	1.7	6,689	7,230	8,157
Adj profit	362	311	16.6	244	48.4	1,170	1,252	1,774
Dil. EPS (INR)	6.1	6.3	(1.8)	4.1	48.4	23.6	21.2	29.4
Diluted P/E (x) *						4.1	4.6	3.3
EV/EBITDA (x) *						5.9	5.5	4.4
ROAE (%)						7.4	6.4	7.4

*for implied construction business

Edelweiss Research is also available on www.edelresearch.com, Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.



EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

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

CMP	: INR 151
Target Price	: INR 245
52-week range (INR)	: 630 / 130
Share in issue (mn)	: 56.5
M cap (INR bn/USD mn)	: 9 / 120
Avg. Daily Vol. BSE/NSE ('000)	: 38.3

SHARE HOLDING PATTERN (%)

	Current	Q2FY19	Q1FY19
Promoters *	49.3	49.3	49.3
MF's, FI's & BKs	21.4	20.9	21.1
FII's	10.2	9.6	9.6
Others	19.1	20.1	20.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(5.7)	(20.1)	(14.4)
3 months	(0.4)	(31.4)	(31.0)
12 months	(16.1)	(73.0)	(56.8)

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Other highlights

- **Revenue growth:** Q3FY19 revenue growth was about 3% YoY. Management attributed the weak performance to:
 - adverse impact on projects in Northeast India due to ongoing agitation;
 - land acquisition issues pertaining to projects in West Bengal; and
 - Right of Way (RoW) issues on metro rail projects.

The land acquisition and RoW issues have abated due to which management believes execution will be better in Q4FY19; hence, it has guided for revenue of ~INR20bn for Q4FY19.

- **Chandikhol BOT project:** Management expects to receive ~INR3bn (SINF's share) by March-April 2019 following the sale of the project.
- **Recovery of old debtors:** INR2.8bn of old debtors had been recovered by end-Q3FY19; an additional ~INR280mn were recovered in January 2019.
- **Arbitration claims:** As on date, the total amount of arbitration is ~INR18.4bn, 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.
- **Debt guidance:** INR28–29bn at end-FY20 (INR24bn earlier).

Financial snapshot
(INR mn)

Year to March	Q3FY19	Q3FY18	% change	Q2FY19	% change	YTD FY19	FY19E	FY20E
Net revenues	14,034	13,601	3.2	14,791	(5.1)	28,825	61,272	68,546
Direct costs	4,796	4,101	16.9	4,826	(0.6)	9,622	26,455	29,528
Staff costs	1,263	1,312	(3.8)	1,238	2.0	2,500	22,956	25,682
Other expenses	6,187	6,403	(3.4)	6,967	(11.2)	13,154	4,630	5,179
Total expenditure	12,245	11,816	3.6	13,031	(6.0)	25,276	49,411	55,210
EBITDA	1,789	1,785	0.3	1,760	1.7	3,549	7,230	8,157
Depreciation	407	454	(10.3)	438	(6.9)	845	1,696	1,816
EBIT	1,382	1,331	3.9	1,323	4.5	2,705	5,534	6,341
Interest	1,135	1,147	(1.1)	1,182	(4.0)	2,317	4,721	4,738
Other income	240	217	10.5	207	16.2	447	950	1,085
Add: Prior period items								
Add: Exceptional items								
Profit before tax	487	401	21.5	347	40.2	834	1,763	2,688
Provision for taxes	125	90	38.3	103	20.9	228	511	914
Reported net profit	362	311	16.6	244	48.4	607	1,252	1,774
Adjusted Profit	362	311	16.6	244	48.4	607	1,252	1,774
Equity capital	118	99		118		236	118	121
Diluted shares (mn)	59	50		59		118	59	60
Adjusted Diluted EPS	6.1	6.3	(1.8)	4.1	48.4	10.3	21.2	29.4
As a % of net revenues								
Direct costs	34.2	30.1		32.6		66.8	43.2	43.1
Other expenses	53.1	56.7		55.5		108.6	45.0	45.0
EBITDA	12.7	13.1		11.9		24.6	11.8	11.9
Reported net profit	2.6	2.3		1.7		4.2	2.0	2.6
Tax rate	25.6	22.5		29.7		55.3	29.0	34.0

Company Description

SINF is a 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 geographically diversified 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. Any slowdown in the corporate capex will impact the revenue growth negatively.

Financial Statements

Key Assumptions

Year to March	FY18	FY19E	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Raw Material (% net rev)	32.8	32.6	32.5	32.5
Order intake (INR bn)	79	41	71	91
Y-o-Y growth (%)	(2.3)	(48.3)	73.7	28.3
Book-to-bill ratio (x)	3.2	2.7	2.4	2.5
Order backlog (INR bn)	186	166	168	185
Order backlog growth (%)	12.7	(11.0)	1.3	10.1
Revenue growth (% yoy)	3	6	12	7
Job work (as % of sales)	28.3	28.3	28.3	28.4
Other mfg(as % of sales)	10.6	10.6	10.6	10.6
Salary (% of revenues)	9.2	9.2	9.2	9.2
Other admin (% net rev)	7.6	7.6	7.6	7.6
Avg. Interest rate (%)	12.6	12.6	12.6	12.6
Depreciation rate (%)	11.3	9.8	9.8	9.8
Dividend per share	0.5	0.5	0.5	0.5
Inc. in invts (INR mn)	2	-	-	-
Tax rate (%)	22.5	29.0	34.0	34.0
Capex (INR mn)	958	1,025	1,275	1,045
Debtor days	357	354	328	310
Inventory days	66	63	61	61
Payable days	163	150	140	146
Other creditors days	161	153	141	141
Provisions days	1	1	1	2
Incremental debt	2,115	(500)	(3,500)	(5,750)

Income statement

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Income from operations	57,662	61,272	68,546	73,680
Direct costs	25,012	26,455	29,528	31,739
Employee costs	21,604	22,956	25,682	27,679
Other Expenses	4,357	4,630	5,179	5,567
Total operating expenses	50,973	54,041	60,389	64,986
EBITDA	6,689	7,230	8,157	8,695
Depreciation	1,834	1,696	1,816	1,940
EBIT	4,855	5,534	6,341	6,755
Less: Interest Expense	4,709	4,721	4,738	4,154
Add: Other income	1,363	950	1,085	1,085
Profit Before Tax	1,509	1,763	2,688	3,686
Less: Provision for Tax	340	511	914	1,253
Reported Profit	1,170	1,252	1,774	2,433
Adjusted Profit	1,170	1,252	1,774	2,433
Shares o /s (mn)	50	59	60	60
Adjusted Basic EPS	23.6	21.2	29.4	40.3
Diluted shares o/s (mn)	50	59	60	60
Adjusted Diluted EPS	23.6	21.2	29.4	40.3
Adjusted Cash EPS	63.4	50.0	59.5	72.5
Dividend per share (DPS)	0.5	0.5	0.5	0.5
Dividend Payout Ratio(%)	2.6	2.8	2.0	1.4

Common size metrics

Year to March	FY18	FY19E	FY20E	FY21E
Operating expenses	88.4	88.2	88.1	88.2
EBITDA margins	11.6	11.8	11.9	11.8
Net Profit margins	2.0	2.0	2.6	3.3

Growth ratios (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	2.8	6.3	11.9	7.5
EBITDA	8.6	8.1	12.8	6.6
PBT	12.1	16.8	52.5	37.1
Adjusted Profit	(2.8)	7.0	41.7	37.1
EPS	(2.8)	(9.9)	38.6	37.1

Infrastructure - Construction

Balance sheet (INR mn)				
As on 31st March	FY18	FY19E	FY20E	FY21E
Share capital	99	118	121	121
Reserves & Surplus	16,246	22,468	25,203	28,597
Shareholders' funds	16,346	22,586	25,323	28,717
Long term borrowings	5,511	5,511	4,011	2,511
Short term borrowings	29,858	29,358	27,358	23,108
Total Borrowings	35,369	34,869	31,369	25,619
Long Term Liabilities	103	103	103	103
Def. Tax Liability (net)	1,207	100	100	100
Sources of funds	53,024	57,657	56,895	54,539
Gross Block	16,571	17,571	18,821	19,821
Net Block	10,962	10,288	9,753	8,858
Capital work in progress	99	99	99	99
Intangible Assets	16	19	12	13
Total Fixed Assets	11,076	10,405	9,864	8,969
Non current investments	1,341	1,341	1,341	1,341
Cash and Equivalents	1,049	1,120	1,159	1,348
Inventories	7,561	7,553	8,796	8,802
Sundry Debtors	59,837	59,013	64,183	60,973
Loans & Advances	6,975	7,289	8,155	8,765
Other Current Assets	4,304	4,638	5,188	5,577
Current Assets (ex cash)	78,678	78,492	86,322	84,117
Trade payable	19,869	16,116	21,405	20,714
Other Current Liab	19,250	17,584	20,385	20,521
Total Current Liab	39,119	33,700	41,790	41,235
Net Curr Assets-ex cash	39,558	44,792	44,532	42,882
Uses of funds	53,024	57,657	56,895	54,539
BVPS (INR)	329.2	383.0	419.8	476.0

Free cash flow (INR mn)				
Year to March	FY18	FY19E	FY20E	FY21E
Reported Profit	1,170	1,252	1,774	2,433
Add: Depreciation	1,834	1,696	1,816	1,940
Interest (Net of Tax)	3,649	3,352	3,127	2,741
Others	(3,506)	(3,352)	(3,127)	(2,741)
Less: Changes in WC	3,347	5,234	(260)	(1,650)
Operating cash flow	(200)	(2,286)	3,850	6,023
Less: Capex	958	1,025	1,275	1,045
Free Cash Flow	(1,159)	(3,311)	2,575	4,978

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (x)		P/B (x)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Simplex Infrastructures Ltd	120	5.9	4.8	0.4	0.4	6.4	7.4
Nagarjuna Construction Co	689	5.2	4.6	1.0	0.9	13.1	12.5
Median	-	5.5	4.7	0.7	0.6	9.7	10.0
AVERAGE	-	5.5	4.7	0.7	0.6	9.7	10.0

Source: Edelweiss research

Cash flow metrics				
Year to March	FY18	FY19E	FY20E	FY21E
Operating cash flow	(200)	(2,286)	3,850	6,023
Financing cash flow	2,085	4,488	(2,536)	(4,789)
Investing cash flow	(960)	(1,025)	(1,275)	(1,045)
Net cash Flow	924	1,177	39	189
Capex	(958)	(1,025)	(1,275)	(1,045)
Dividend paid	(30)	(35)	(35)	(35)

Profitability and efficiency ratios

Year to March	FY18	FY19E	FY20E	FY21E
ROAE (%)	7.4	6.4	7.4	9.0
ROACE (%)	12.4	11.9	13.0	14.1
Inventory Days	66	63	61	61
Debtors Days	357	354	328	310
Payable Days	324	303	281	287
Cash Conversion Cycle	99	114	108	84
Current Ratio	2.0	2.4	2.1	2.1
Gross Debt/EBITDA	5.3	4.8	3.8	2.9
Gross Debt/Equity	2.2	1.5	1.2	0.9
Adjusted Debt/Equity	2.2	1.5	1.2	0.9
Net Debt/Equity	2.1	1.5	1.2	0.8
Interest Coverage Ratio	1.0	1.2	1.3	1.6

Operating ratios

Year to March	FY18	FY19E	FY20E	FY21E
Total Asset Turnover	1.1	1.1	1.2	1.3
Fixed Asset Turnover	5.1	5.8	6.8	7.9
Equity Turnover	3.6	3.1	2.9	2.7

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adj. Diluted EPS (INR)	23.6	21.2	29.4	40.3
Y-o-Y growth (%)	(2.8)	(9.9)	38.6	37.1
Adjusted Cash EPS (INR)	63.4	50.0	59.5	72.5
Diluted P/E (x) *	4.1	4.6	3.3	2.4
P/B (x)	0.5	0.4	0.4	0.3
EV / Sales (x) *	0.7	0.6	0.5	0.4
EV / EBITDA (x) *	5.9	5.5	4.4	3.5
Dividend Yield (%)	0.3	0.3	0.3	0.3

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

**as per latest annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Reliance Capital	9.15	HDFC AMC	8.97
HSBC	2.44	Abu Dhabi Investment Authority	2.26
Kotak AMC	2.05	ICICI Prudential Life	1.76
Bank of Japan	1.72	Dimensional Fund Advisors	0.75
Baroda Pioneer MF	0.26	LIC Nomura MF	0.16

**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
11 Jan 2019	Jms Mining Private Limited	Buy	602000.00

**as per last available data*

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

Ahluwalia Contracts, Ashoka Buildcon, Capaci'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-Feb-19	Ahluwalia Contracts	One-off quarter; order intake surge continues; <i>Result Update</i>	261	Buy
14-Feb-19	NBCC	Subsidiaries drag margins; <i>Result Update</i>	49	Reduce
13-Feb-19	J Kumar Infraprojects	Strong performance continues; <i>Result Update</i>	121	Under Review

Distribution of Ratings / Market Cap

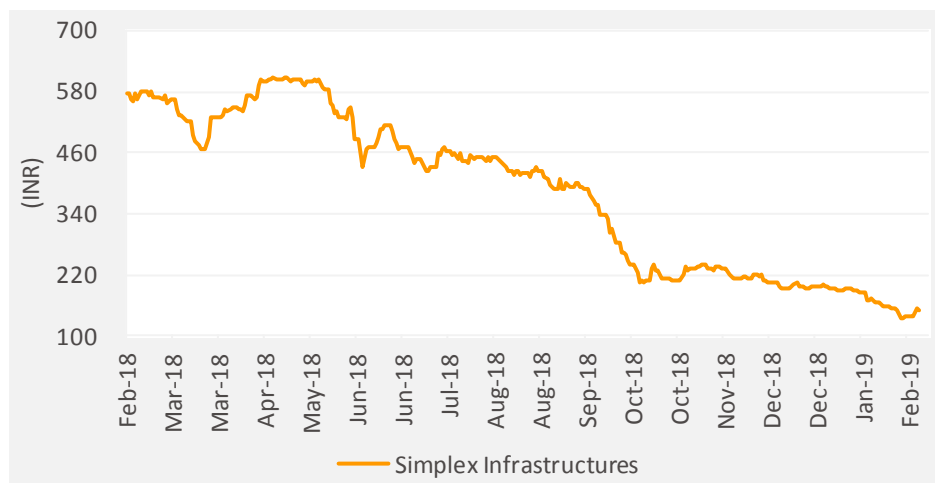
Edelweiss Research Coverage Universe

	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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