India Midcaps

RESULT UPDATE

SIMPLEX INFRASTRUCTURES

Order inflows improve

India Equity Research| Infrastructure - Construction

Edelweiss
Ideas create, values protect

Simplex Infrastructure's (SINF) Q2FY18 revenues were impacted by GST related uncertainty and working capital constraints; top line declined 1% YoY. EBITDA margin improved by ~95bps YoY; lower tax rate (due to tax reversals) led to PAT surging ~56% YoY to INR278mn. The company has been witnessing healthy order intake in past couple of quarters; its order book as at Q2FY18 end stood at ~INR173bn (book-to-bill at 3x). We believe debt reduction via working capital improvement will determine execution growth going ahead. Maintain 'BUY' with SoTP-based target price of INR664.

GST uncertainty hits top line

Top line declined 1% YoY to INR12.5bn hit by GST-led pile up in working capital. Aided by lower tax rate, PAT logged strong YoY growth. SINF won ~INR35bn orders in H1FY18 (INR81bn in FY17) boosting order book to INR173bn. Further, the company has won ~INR8.6bn worth of orders in the current quarter and is L1 in ~INR23bn orders. Management has guided for ~INR70-75bn order intake in FY18, translating into 10% revenue growth.

Working capital improvement to drive execution growth

SINF's stretched working capital cycle (255 days) has led to a leveraged balance sheet (debt:equity at 2.3x) and constrained its revenue growth. Management expects to realise INR4.5-5bn of old debtors by FY18 end; this, along with resolution of GST-related issues (already underway) will improve working capital cycle.

Outlook and valuations: Balance sheet health key; maintain 'BUY'

The company'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!***). However, a leveraged balance sheet has constrained top line growth; fall in debt levels driven by improvement in working capital cycle will be key driver of future execution and earnings growth. We maintain 'BUY' with SoTP-based target price of INR664 (INR638 from EPC business at 18x FY19E EPS and balance from BOT projects).

Financials (Standalone) (INR mn)

Year to March	Q2FY18	Q2FY17	*% change*	Q1FY18	*% change*	FY17	FY18E	FY19E
Revenues	12,460	12,635	*(1.4)*	15,119	*(17.6)*	56,075	60,429	69,228
EBITDA	1,696	1,598	*6.1*	1,728	*(1.9)*	6,887	7,119	8,225
Adj profit	278	178	*55.7*	287	*(3.3)*	1,203	1,150	1,759
Dil. EPS (INR)	5.6	3.6	*55.7*	5.8	*(3.3)*	24.2	23.2	35.4
Diluted P/E (x) *						19.8	20.7	13.6
EV/EBITDA (x) *						8.2	7.8	6.5
ROAE (%)						8.1	7.2	10.2

** for implied construction business*

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

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

CMP	: INR 507
Target Price	: INR 664
52-week range (INR)	: 590 / 260
Share in issue (mn)	: 49.5
M cap (INR bn/USD mn)	: 25 / 293
Avg. Daily Vol. BSE/NSE ('000)	: 41.0

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	56.3	56.3	56.2
MF's, FI's & BKs	19.7	19.6	19.3
FII's	1.4	0.2	0.7
Others	22.6	23.8	23.8
** Promoters pledged shares (% of share in issue)*	:		*2.2*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	2.8	10.0	7.2
3 months	8.0	7.7	(0.3)
12 months	37.0	60.5	23.5

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Other highlights

- Debt stood at ~INR36.1bn as at Q2FY18 end (INR33.2bn at FY17 end and INR33.6bn as at Q1FY18 end).
- To offset slowdown in private sector capex, SINF has sharpened focus on public sector jobs as reflected in higher share of government orders in order book - up 68% as at Q2FY18 end from 42% in FY16.
- Arbitration claims won by the company stand at ~INR4.56bn (claims from central government departments are ~INR1.8bn); in addition, claims worth ~ INR11.8bn are currently under arbitration.
- Overseas segment contributed 9% to revenues and 1% to order intake during H1FY18; share in order book is at 5%.

Chart 1: Order book break up

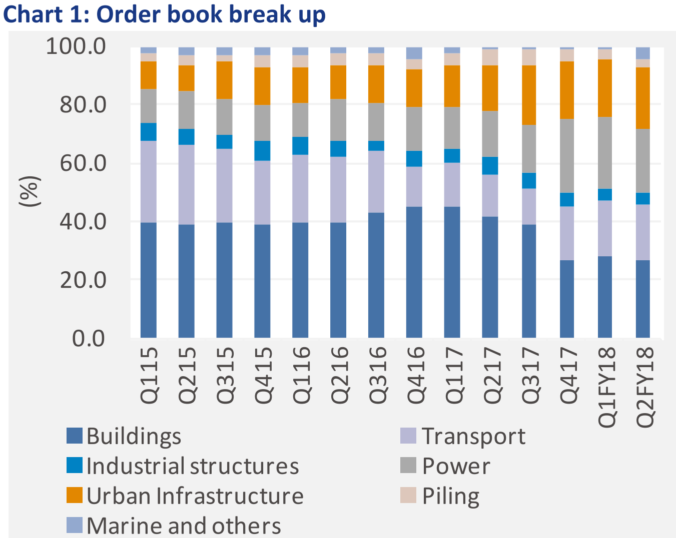


Chart 2: Revenue break up

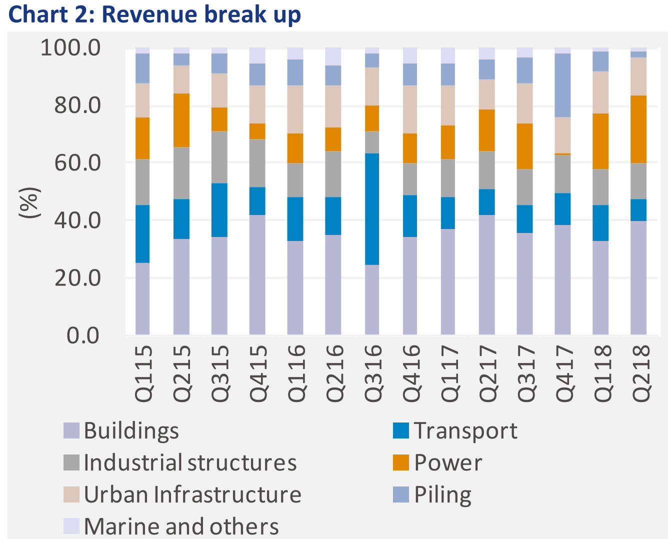
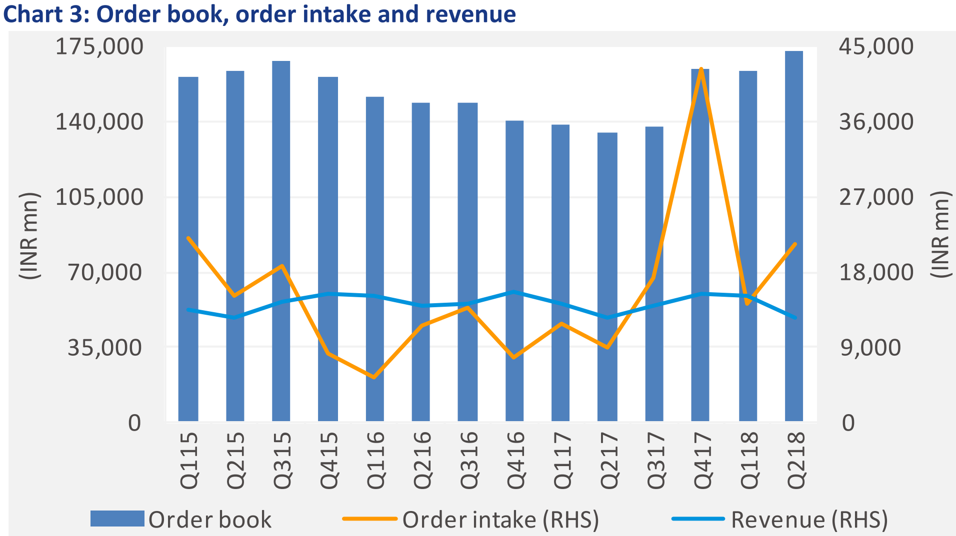


Chart 3: Order book, order intake and revenue



Source: Company, Edelweiss research

Financial snapshot (INR mn)

Year to March	Q2FY18	Q2FY17	*% change*	Q1FY18	*% change*	YTD18	FY18E	FY19E
Net revenues	12,460	12,635	*(1.4)*	15,119	*(17.6)*	27,579	60,429	69,228
Direct costs	3,681	3,433	*7.2*	5,208	*(29.3)*	8,889	24,875	28,429
Staff costs	1,404	1,250	*12.3*	1,403	*0.1*	2,807	24,289	27,826
Other expenses	5,680	6,355	*(10.6)*	6,780	*(16.2)*	12,460	4,145	4,748
Total expenditure	10,765	11,037	*(2.5)*	13,391	*(19.6)*	24,155	49,165	56,255
EBITDA	1,696	1,598	*6.1*	1,728	*(1.9)*	3,424	7,119	8,225
Depreciation	470	499	*(5.8)*	479	*(1.8)*	949	2,056	2,117
EBIT	1,226	1,099	*11.5*	1,250	*(1.9)*	2,475	5,063	6,108
Other income	294	289	*1.9*	247	*19.2*	541	1,066	932
Interest	1,176	1,094	*7.5*	1,132	*3.8*	2,308	4,690	4,375
Add: Prior period items								
Add: Exceptional items								
Profit before tax	344	294	*16.9*	364	*(5.5)*	708	1,439	2,665
Provision for taxes	66	116	*(42.8)*	77	*(13.5)*	143	289	906
Reported profit	278	178	*55.7*	287	*(3.3)*	565	1,150	1,759
Adjusted Profit	278	178	*55.7*	287	*(3.3)*	565	1,150	1,759
Equity capital	99	99		99		99	99	99
Diluted shares (mn)	50	50		50		50	50	50
Adjusted Diluted EPS	5.6	3.6	*55.7*	5.8	*(3.3)*	11.4	23.2	35.4
as a % of net revenues								
Direct costs	29.5	27.2		34.4		64.0	41.2	41.1
Other expenses	56.9	60.2		54.1		111.0	47.1	47.1
EBITDA	13.6	12.7		11.4		25.0	11.8	11.9
Reported profit	2.2	1.4		1.9		4.1	1.9	2.5
Tax rate	19.3	39.4		21.1		40.4	20.1	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	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	66.0	66.0
Company				
Order intake (INR bn)	39	81	86	101
Y-o-Y growth (%)	*(39.8)*	*108.2*	*6.2*	*17.5*
Book-to-bill ratio (x)	2.4	2.9	3.1	3.2
Order backlog (INR bn)	141	165	190	222
Order backlog growth (%)	(12.6)	17.4	15.2	16.5
Revenue growth (% yoy)	6	(5)	8	15
Raw Material (% net rev)	33.4	29.3	29.7	29.6
Job work (as % of sales)	29.4	30.9	31.0	31.0
Other mfg(as % of sales)	11.2	11.5	11.5	11.5
Salary (% of revenues)	8.7	9.2	9.2	9.2
Other admin (% net rev)	5.8	6.9	6.9	6.9
Avg. Interest rate (%)	12.9	13.2	13.0	12.8
Depreciation rate (%)	11.5	13.0	12.7	12.1
Tax rate (%)	28.4	10.6	20.1	34.0
Dividend per share	0.5	0.5	0.5	0.5
Inc. in invts (INR mn)	-	58	-	-
Capex (INR mn)	1,734	805	1,025	1,700
Debtor days	294	329	328	303
Inventory days	70	67	65	61
Payable days	138	147	150	147
Other creditors days	111	145	150	147
Provisions days	1	1	2	2
Incremental debt	253	(737)	(750)	(2,350)

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	59,046	56,075	60,429	69,228
Direct costs	26,299	22,859	24,875	28,429
Employee costs	22,484	22,483	24,289	27,826
Other Expenses	3,441	3,846	4,145	4,748
Total operating expenses	52,224	49,188	53,309	61,003
EBITDA	6,822	6,887	7,119	8,225
Depreciation	2,036	1,978	2,056	2,117
EBIT	4,787	4,909	5,063	6,108
Add: Other income	981.4	890.5	1,066.00	931.7
Less: Interest Expense	4,286	4,454	4,690	4,375
Profit Before Tax	1,482	1,346	1,439	2,665
Less: Provision for Tax	421	143	289	906
Reported Profit	1,061	1,203	1,150	1,759
Adjusted Profit	1,061	1,203	1,150	1,759
Shares o /s (mn)	50	50	50	50
Adjusted Basic EPS	21.4	24.2	23.2	35.4
Diluted shares o/s (mn)	50	50	50	50
Adjusted Diluted EPS	21.4	24.2	23.2	35.4
Adjusted Cash EPS	60.5	65.1	64.6	78.1
Dividend per share (DPS)	0.5	0.5	0.5	0.5
Dividend Payout Ratio(%)	2.8	2.5	2.6	1.7

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	88.4	87.7	88.2	88.1
EBITDA margins	11.6	12.3	11.8	11.9
Adjusted profit margins	1.8	2.1	1.9	2.5

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	5.8	(5.0)	7.8	14.6
EBITDA	8.6	0.9	3.4	15.5
PBT	57.9	(9.2)	7.0	85.2
Adjusted Profit	70.0	13.3	(4.4)	53.0
EPS	70.0	13.3	(4.4)	53.0

Balance sheet				(INR mn)
As on 31st March	**FY16**	**FY17**	**FY18E**	**FY19E**
Share capital	99	99	99	99
Reserves & Surplus	14,151	15,204	16,324	18,053
Shareholders' funds	14,250	15,303	16,423	18,152
Short term borrowings	27,889	27,450	26,700	24,450
Long term borrowings	6,102	5,804	5,804	5,704
Total Borrowings	33,991	33,254	32,504	30,154
Long Term Liabilities	104	121	121	121
Def. Tax Liability (net)	798	1,064	1,064	1,064
Sources of funds	**49,143**	**49,742**	**50,112**	**49,492**
Gross Block	14,806	15,607	16,607	18,307
Net Block	12,797	11,710	10,665	10,261
Capital work in progress	123	115	115	115
Intangible Assets	14	20	34	21
Total Fixed Assets	12,935	11,845	10,814	10,396
Non current investments	1,235	1,316	1,316	1,316
Cash and Equivalents	279	352	595	528
Inventories	7,281	7,464	8,072	8,608
Sundry Debtors	48,107	52,886	55,721	59,217
Loans & Advances	5,405	6,058	6,528	7,479
Other Current Assets	3,915	4,256	4,468	5,119
Current Assets (ex cash)	64,708	70,664	74,789	80,423
Trade payable	15,268	17,119	18,736	21,462
Other Current Liab	14,745	17,315	18,665	21,709
Total Current Liab	30,013	34,434	37,401	43,171
Net Curr Assets-ex cash	34,695	36,230	37,388	37,252
Uses of funds	**49,143**	**49,742**	**50,112**	**49,492**
BVPS (INR)	287.0	308.2	330.8	365.6

Free cash flow				(INR mn)
Year to March	**FY16**	**FY17**	**FY18E**	**FY19E**
Reported Profit	1,061	1,203	1,150	1,759
Add: Depreciation	2,036	1,978	2,056	2,117
Interest (Net of Tax)	3,068	3,980	3,747	2,887
Others	(12,667)	(6,965)	(6,064)	(2,614)
Less: Changes in WC	(5,079)	(1,518)	(1,158)	137
Operating cash flow	(1,423)	1,714	2,048	4,013
Less: Capex	1,734	805	1,025	1,700
Free Cash Flow	**(3,157)**	**909**	**1,023**	**2,313**

Cash flow metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	(1,423)	1,714	2,048	4,013
Investing cash flow	(1,340)	(863)	(1,025)	(1,700)
Financing cash flow	549	(767)	(780)	(2,380)
Net cash Flow	(2,214)	85	243	(67)
Capex	(1,734)	(805)	(1,025)	(1,700)
Dividend paid	(30)	(30)	(30)	(30)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	7.4	8.1	7.2	10.2
ROACE (%)	12.2	12.0	12.6	14.5
Inventory Days	70	67	65	61
Debtors Days	294	329	328	303
Payable Days	249	292	300	294
Cash Conversion Cycle	115	103	93	70
Current Ratio	2.2	2.1	2.0	1.9
Gross Debt/EBITDA	5.0	4.8	4.6	3.7
Gross Debt/Equity	2.4	2.2	2.0	1.7
Adjusted Debt/Equity	2.4	2.2	2.0	1.7
Net Debt/Equity	2.4	2.2	1.9	1.6
Interest Coverage Ratio	1.1	1.1	1.1	1.4

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.2	1.1	1.2	1.4
Fixed Asset Turnover	4.9	4.6	5.4	6.6
Equity Turnover	4.1	3.8	3.8	4.0

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	21.4	24.2	23.2	35.4
Y-o-Y growth (%)	*70.0*	*13.3*	*(4.4)*	*53.0*
Adjusted Cash EPS (INR)	60.5	65.1	64.6	78.1
Diluted P/E (x) *	22.5	19.8	20.7	13.6
P/B (x)	1.8	1.6	1.5	1.4
EV / Sales (x) *	1.0	1.0	0.9	0.8
EV / EBITDA (x) *	8.4	8.2	7.8	6.5
Dividend Yield (%)	0.1	0.1	0.1	0.1

**For implied construction business*

Peer comparison valuation

	Market cap	EV / EBITDA (X)		P/B (X)		ROAE (%)	
Name	(USD mn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Simplex Infrastructures Ltd	-	8.0	6.7	1.5	1.4	7.2	10.2
Hindustan Construction Co.	554	10.6	7.0	1.4	1.3	(1.0)	5.7
Nagarjuna Construction Co	874	10.8	8.0	1.6	1.4	6.3	9.2
Median	-	10.6	7.0	1.5	1.4	6.3	9.2
AVERAGE	-	9.8	7.2	1.5	1.4	4.2	8.3

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

**as per latest annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Reliance Capital Asset Management	9.21	HDFC Asset Management	8.96
State Bank of India	1.39	Nippon Life Insurance company	0.62
Dimension fund advisor	0.44	Manulife Asset Management	0.02

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
10 Feb 2017	Warhol Ltd	Sell	705244	306.13

**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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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
16-Nov-17	**PNC Infratech**	Land acquisition issues play spoilsport; *Result Update*	179	Buy
15-Nov-17	**KNR Construction**	Monsoons impact top line; order inflow vital; *Result Update*	255	Buy
15-Nov-17	**J Kumar Infraprojects**	Poised for growth; *Result Update*	247	Buy

1Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

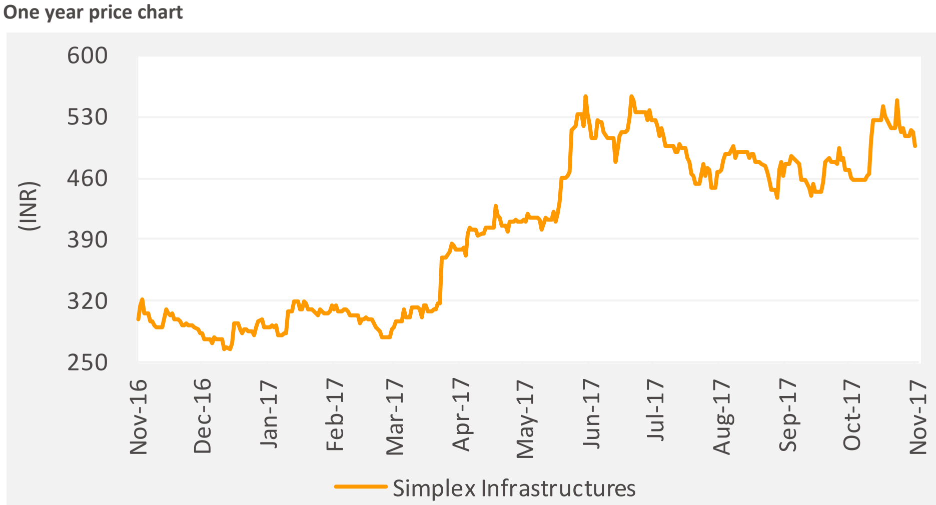
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	229

	> 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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