

SIMPLEX INFRASTRUCTURES

Another disappointing quarter

India Equity Research | Infrastructure - Construction

Simplex Infrastructures (SINF) posted yet another weak quarter with Q1FY20 revenue falling off 16% YoY to INR13.3bn. The pace of both execution and realisation of receivables was impacted by the general elections. The working capital cycle, hence, increased to 287 days (from 272 at end-FY19). We believe the soft performance would persist into Q2FY20 as management focuses on balance sheet improvement, but expect a pickup in execution in H2FY20. A weaker-than-expected order inflow led to order book contraction (~INR153bn at end-Q1FY20 versus INR160bn at end-FY19). All in all, we are axing FY20/21E EPS by 20%/23% and the target multiple from 6x to 4x EPS. Maintain 'BUY' with a revised SoTP-based TP of INR139 (INR204 earlier) as we roll over to December 2020E.

Order book shrinks further on weak order inflow

SINF bagged orders worth about INR6.6bn in Q1FY20, resulting in a decline in the order book from about INR160bn at end-FY19 to INR153bn at end-Q1FY20 (book-to-bill of 2.7x). The company has indicated it has a bid pipeline of about INR298bn; strong incremental order inflows are key to boosting the order backlog and improving revenue visibility in our view.

Delays in collections further hurt working capital

SINF's debt declined by about INR1bn QoQ to about INR35.5bn (INR36.5bn at end-FY19). Elections during the quarter led to delays in realisation of receivables; as a result, net working capital cycle (NWC) increased sequentially to 287 days (272 days at end-FY19). A significant improvement in the balance sheet via accelerated recovery of old debtors will be a key determinant of the company's growth trajectory in our view.

Outlook and valuation: NWC improvement key; maintain 'BUY'

While SINF boasts a diversified presence across infrastructure verticals, its stretched balance sheet is a cause for concern, and, therefore, an improvement in the latter is critical in our view. We are slashing FY20/21E earnings by 20%/23% and the target multiple from 6x EPS to 4x. Maintain 'BUY' with a revised SoTP-based TP of INR139 (INR82 from the EPC business at 4x EPS and the balance from BOT projects) as we roll over the valuation to December 2020E.

Financials (Standalone)

(INR mn)

Year to March	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Revenues	13,286	15,842	(16.1)	15,747	(15.6)	60,415	60,154	62,368
EBITDA	1,720	1,770	(2.8)	1,834	(6.2)	7,103	6,897	7,151
Adj profit	209	283	(26.1)	336	(37.8)	1,226	1,094	1,205
Dil. EPS (INR)	3.6	5.0	(26.9)	5.9	(37.8)	21.4	18.1	20.0
Diluted P/E (x) *						0.1	0.1	0.1
EV/EBITDA (x) *						5.0	4.9	4.2
ROAE (%)						6.7	5.2	5.4

*for implied construction business

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

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

CMP	: INR 59
Target Price	: INR 139
52-week range (INR)	: 454 / 58
Share in issue (mn)	: 57.1
M cap (INR bn/USD mn)	: 3 / 50
Avg. Daily Vol. BSE/NSE ('000)	: 55.4

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	49.8	49.8	49.3
MF's, FI's & BKs	19.2	19.3	21.4
FII's	10.0	10.2	10.2
Others	20.9	20.7	19.1
* Promoters pledged shares (% of share in issue)	:	27.24	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(8.3)	(45.1)	(36.9)
3 months	(7.0)	(59.7)	(52.7)
12 months	(16.7)	(85.5)	(68.8)

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Other highlights

- Major projects won during the quarter included an INR6.5bn healthcare project in Jharkhand and a couple of urban infrastructure and housing projects in the public space.
- **Revenue growth:** Q1FY20 revenue declined 16% YoY on account of execution challenges, primarily due to the elections during the quarter.
- **Chandikhol BOT project:** Management expects to conclude the sale of the project next quarter, after which it will receive about INR3bn (SINF's share).
- **Debt:** SINF's gross debt at end-Q1FY20 decreased by about INR1bn to about INR35.5bn (~INR36.5bn at end-FY19).

Financial snapshot

(INR mn)

Year to March	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Net revenues	13,286	15,842	(16.1)	15,747	(15.6)	60,415	60,154	62,368
Direct costs	4,466	5,755	(22.4)	5,755	(22.4)	21,115	26,120	27,019
Staff costs	1,128	1,253	(10.0)	1,181	(4.5)	21,119	22,508	23,398
Other expenses	5,973	7,064	(15.4)	6,978	(14.4)	11,077	4,629	4,800
Total expenditure	11,566	14,072	(17.8)	13,913	(16.9)	42,235	48,627	50,417
EBITDA	1,720	1,770	(2.8)	1,834	(6.2)	7,103	6,897	7,151
Depreciation	355	452	(21.4)	381	(6.9)	1,677	1,641	1,735
EBIT	1,365	1,319	3.5	1,453	(6.1)	5,426	5,257	5,416
Interest	1,198	1,211	(1.0)	1,231	(2.7)	4,708	4,685	4,675
Other income	188	296	(36.7)	376	(50.1)	1,119	1,085	1,085
Add: Prior period items								
Add: Exceptional items								
Profit before tax	354	404	(12.4)	598	(40.7)	1,837	1,657	1,826
Provision for taxes	145	122	19.6	262	(44.4)	611	563	621
Reported net profit	209	283	(26.1)	336	(37.8)	1,226	1,094	1,205
Adjusted Profit	209	283	(26.1)	336	(37.8)	1,226	1,094	1,205
Equity capital	115	114		115		115	121	121
Diluted shares (mn)	57	57		57		57	60	60
Adjusted Diluted EPS	3.6	5.0	(26.9)	5.9	(37.8)	21.4	18.1	20.0
As a % of net revenues								
Direct costs	33.6	36.3		36.5		35.0	43.4	43.3
Other expenses	53.4	52.5		51.8		53.3	45.1	45.2
EBITDA	12.9	11.2		11.6		11.8	11.5	11.5
Reported net profit	1.6	1.8		2.1		2.0	1.8	1.9
Tax rate	41.0	30.1		43.8		33.3	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 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.

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Raw Material (% net rev)	33.0	32.8	32.9	32.8
Order intake (INR bn)	79	34	49	69
Y-o-Y growth (%)	(2.3)	(56.3)	43.6	40.5
Book-to-bill ratio (x)	3.2	2.7	2.5	2.5
Order backlog (INR bn)	186	160	149	156
Order backlog growth (%)	12.7	(14.0)	(6.7)	4.7
Revenue growth (% yoy)	3	5	-	4
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	9.1	9.1
Other admin (% net rev)	7.7	7.7	7.7	7.7
Avg. Interest rate (%)	13.2	13.1	13.1	13.1
Depreciation rate (%)	11.3	9.7	9.0	9.0
Dividend per share	0.5	0.5	0.5	0.5
Inc. in invts (INR mn)	2	(41)	-	-
Tax rate (%)	22.5	33.3	34.0	34.0
Capex (INR mn)	958	861	825	1,045
Debtor days	357	354	370	348
Inventory days	66	63	61	61
Payable days	163	150	153	140
Other creditors days	161	153	141	141
Provisions days	1	1	1	1
Incremental debt	2,115	1,142	(1,500)	(4,000)

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Income from operations	57,662	60,415	60,154	62,368
Direct costs	25,096	21,115	26,120	27,019
Employee costs	21,604	21,119	22,508	23,398
Other Expenses	4,466	11,077	4,629	4,800
Total operating expenses	51,166	53,312	53,257	55,217
EBITDA	6,496	7,103	6,897	7,151
Depreciation	1,834	1,677	1,641	1,735
EBIT	4,662	5,426	5,257	5,416
Less: Interest Expense	4,516	4,708	4,685	4,675
Add: Other income	1,363	1,119	1,085	1,085
Profit Before Tax	1,509	1,837	1,657	1,826
Less: Provision for Tax	340	611	563	621
Reported Profit	1,170	1,226	1,094	1,205
Adjusted Profit	1,170	1,226	1,094	1,205
Shares o /s (mn)	50	57	60	60
Adjusted Basic EPS	23.6	21.4	18.1	20.0
Diluted shares o/s (mn)	50	57	60	60
Adjusted Diluted EPS	23.6	21.4	18.1	20.0
Adjusted Cash EPS	63.4	59.4	45.3	48.7
Dividend per share (DPS)	0.5	0.5	0.5	0.5
Dividend Payout Ratio (%)	2.6	2.8	3.2	2.9

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	88.7	88.2	88.5	88.5
EBITDA margins	11.3	11.8	11.5	11.5
Net Profit margins	2.0	2.0	1.8	1.9

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	2.8	4.8	(0.4)	3.7
EBITDA	5.4	9.3	(2.9)	3.7
PBT	12.1	21.7	(9.8)	10.2
Adjusted Profit	(2.8)	4.8	(10.8)	10.2
EPS	(2.8)	(9.3)	(15.2)	10.2

Infrastructure - Construction

Balance sheet (INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	99	115	121	121
Reserves & Surplus	16,246	20,379	21,437	22,607
Shareholders' funds	16,346	20,494	21,558	22,728
Long term borrowings	5,511	3,713	2,213	713
Short term borrowings	29,858	32,797	32,797	30,297
Total Borrowings	35,369	36,510	35,010	31,010
Long Term Liabilities	103	78	78	78
Def. Tax Liability (net)	1,207	584	584	584
Sources of funds	53,024	57,666	57,230	54,400
Gross Block	16,571	17,433	18,233	19,233
Net Block	10,962	10,166	9,353	8,657
Capital work in progress	99	84	84	84
Intangible Assets	16	9	7	12
Total Fixed Assets	11,076	10,260	9,444	8,753
Non current investments	1,341	1,299	1,299	1,299
Cash and Equivalents	1,049	1,106	1,229	893
Inventories	7,561	7,739	6,677	8,269
Sundry Debtors	59,837	63,088	58,868	60,058
Loans & Advances	6,975	2,605	7,156	7,420
Other Current Assets	4,304	9,161	4,553	4,721
Current Assets (ex cash)	78,678	82,593	77,255	80,468
Trade payable	19,869	21,348	14,810	19,494
Other Current Liab	19,250	16,243	17,187	17,519
Total Current Liab	39,119	37,591	31,997	37,013
Net Curr Assets-ex cash	39,558	45,001	45,258	43,455
Uses of funds	53,024	57,666	57,230	54,400
BVPS (INR)	329.2	357.3	357.3	376.7

Free cash flow (INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	1,170	1,226	1,094	1,205
Add: Depreciation	1,834	1,677	1,641	1,735
Interest (Net of Tax)	3,499	3,142	3,092	3,085
Others	(3,356)	(2,640)	(3,092)	(3,085)
Less: Changes in WC	3,347	5,468	256	(1,803)
Operating cash flow	(200)	(2,063)	2,478	4,744
Less: Capex	958	861	825	1,045
Free Cash Flow	(1,159)	(2,923)	1,653	3,699

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	(200)	(2,063)	2,478	4,744
Financing cash flow	2,085	6,127	(1,529)	(4,035)
Investing cash flow	(1,165)	(4,008)	(825)	(1,045)
Net cash Flow	720	56	124	(337)
Capex	(958)	(861)	(825)	(1,045)
Dividend paid	(30)	(34)	(35)	(35)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	7.4	6.7	5.2	5.4
ROACE (%)	12.0	12.0	11.2	11.8
Inventory Days	66	75	61	61
Debtors Days	357	371	370	348
Payable Days	324	375	294	281
Cash Conversion Cycle	99	71	137	128
Current Ratio	2.0	2.2	2.5	2.2
Gross Debt/EBITDA	5.4	5.1	5.1	4.3
Gross Debt/Equity	2.2	1.8	1.6	1.4
Adjusted Debt/Equity	2.2	1.8	1.6	1.4
Net Debt/Equity	2.1	1.7	1.6	1.3
Interest Coverage Ratio	1.0	1.2	1.1	1.2

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.1	1.1	1.0	1.1
Fixed Asset Turnover	5.1	5.7	6.2	6.9
Equity Turnover	3.6	3.3	2.9	2.8

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	23.6	21.4	18.1	20.0
Y-o-Y growth (%)	(2.8)	(9.3)	(15.2)	10.2
Adjusted Cash EPS (INR)	63.4	59.4	45.3	48.7
Diluted P/E (x) *	0.1	0.1	0.1	0.1
P/B (x)	0.2	0.2	0.2	0.2
EV / Sales (x) *	0.6	0.6	0.6	0.5
EV / EBITDA (x) *	5.3	5.0	4.9	4.2
Dividend Yield (%)	0.9	0.9	0.9	0.9

* for implied construction business

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (x)		P/B (x)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Simplex Infrastructures Ltd	50	5.4	4.7	0.2	0.2	5.2	5.4
Nagarjuna Construction Co	488	3.8	3.0	0.6	0.6	10.4	13.1
Median	-	4.6	3.8	0.4	0.4	7.8	9.3
AVERAGE	-	4.6	3.8	0.4	0.4	7.8	9.3

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

**as per latest annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Reliance Capital	9.11	HDFC MF	8.87
Nippon Life Insurance	2.70	Kotak	2.03
HSBC Global	1.90	ADIA	1.36
Dimensional Fund Advisors	0.74	LIC	0.15
Mitsubishi UFJ	0.01	Alaska Permanent	0.01

**as per latest 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
16-Aug-19	KNR Constructions	Subdued quarter; outlook positive; <i>Result Update</i>	232	Buy
16-Aug-19	Sadbhav Engineering	Awaiting land availability relief; <i>Result Update</i>	125	Buy
14-Aug-19	Ashoka Buildcon	Healthy execution; tepid traffic a concern;	120	Buy

Distribution of Ratings / Market Cap

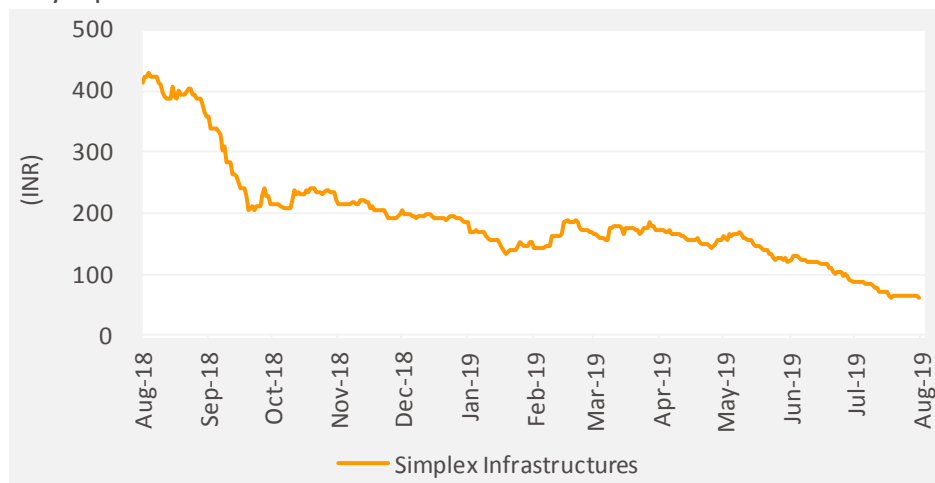
Edelweiss Research Coverage Universe

	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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