India Midcaps

RESULT UPDATE

SIMPLEX INFRASTRUCTURES

Persistently weak performance

India Equity Research| Infrastructure - Construction

Edelweiss
Ideas create, values protect

Simplex Infrastructures (SINF) posted another set of disappointing results: Q2FY20 revenue slid 22% YoY to INR11.6bn while PAT plunged 69% YoY. The prevailing stressed liquidity situation corroded both execution and working capital cycle for the company. The working capital cycle, hence, increased to 310 days (from 287 at end-Q1FY20). We believe the near-term outlook for the company remains challenging considering slowing economy and that balance sheet improvement is imperative to revive growth. However, the value of the company's stake in the BOT project itself is equivalent to the current market cap, implying valuation support. We are slashing FY20/21E EPS by 26%/25%; maintain 'BUY' with a revised SoTP-based TP of INR117 (INR139 earlier) while rolling over the valuation to March 2021E.

Muted order inflow keeps order book flat sequentially

SINF bagged orders worth about INR11.1bn in Q2FY20, which led to order book remaining flat QoQ at INR153bn (book-to-bill of 2.8x); in addition, the company is L1 in an ~INR8.7bn order. Weak order inflows of INR18.8bn in H1FY20 have resulted in a decline in the order book from about INR160bn at end-FY19. The economic slowdown is evident from the fact that the company's bid pipeline has slid from about INR298bn in Q1FY20 to ~INR197bn in Q2FY20. The pick-up in order inflows is vital to boosting order backlog and improving revenue visibility in our view.

Tight liquidity conditions further hurt working capital

SINF's debt inched up QoQ to about INR35.8bn (INR35.5bn at end-Q1FY20). The prevailing liquidity stress has increased net working capital cycle (NWC) sequentially to 310 days (from 287 at end-Q1FY20). The balance sheet must be shored up via accelerated recovery of old debtors and stake sale in BOT project to bolster the company's growth trajectory in our view.

Outlook and valuation: Net working capital key; maintain 'BUY'

SINF's stretched working capital cycle is impacting growth prospects at a time when the overall economy is also slowing down. An improvement in working capital cycle is critical in our view. We are slashing FY20/21E earnings by 26%/25%; maintain **'BUY'** with a revised SoTP-based TP of INR117 (INR60 from the EPC business at 4x EPS and the balance from BOT projects) while rolling over the valuation to March 2021E.

Financials (Standalone) (INR mn)

Year to March	Q2FY20	Q2FY19	*% change*	Q1FY20	*% change*	FY19	FY20E	FY21E
Revenues	11,556	14,791	*(21.9)*	13,286	*(13.0)*	60,415	54,218	60,136
EBITDA	1,578	1,727	*(8.6)*	1,720	*(8.3)*	7,103	6,922	6,895
Adj profit	75	244	*(69.4)*	209	*(64.2)*	1,226	810	905
Dil. EPS (INR)	1.3	4.3	*(69.4)*	3.6	*(64.2)*	21.4	13.4	15.0
Diluted P/E (x)						2.3	3.7	3.3
EV/EBITDA (x)						5.1	5.0	4.6
ROAE (%)						6.7	3.8	4.0

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

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

CMP	: INR 50
Target Price	: INR 117
52-week range (INR)	: 243 / 39
Share in issue (mn)	: 57.1
M cap (INR bn/USD mn)	: 3 / 39
Avg. Daily Vol. BSE/NSE ('000)	: 88.8

SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	49.8	49.8	49.8
MF's, FI's & BKs	18.5	19.2	19.3
FII's	7.5	10.0	10.2
Others	23.8	20.9	20.7

** Promoters pledged shares (% of share in issue) : 27.24*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	7.7	33.2	25.5
3 months	8.6	(13.7)	(22.3)
12 months	(0.8)	(77.3)	(76.5)

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Other highlights

- Major projects won during the quarter included an INR2.7bn healthcare project in Bihar and an industrial project worth about INR1bn.

- **Chandikhol BOT project**: Management expects to conclude the sale of the project in the current quarter, after which it will receive about INR3bn (SINF's share).

- **Tax rate:** Tax rate during the quarter was high at ~45% (~42% in H1FY20) as the company has to pay MAT on a project which is under construction in Bangladesh. Tax rate will revert to the usual rate (35–36%) once the project gets completed.

Financial snapshot **(INR mn)**

Year to March	Q2FY20	Q2FY19	*% change*	Q1FY20	*% change*	YTD20	FY20E	FY21E
Net revenues	11,556	14,791	*(21.9)*	13,286	*(13.0)*	24,842	54,218	60,136
Staff costs	1,015	1,238	*(18.0)*	1,128	*(10.0)*	2,142	20,286	22,561
Direct costs	3,813	4,826	*(21.0)*	4,466	*(14.6)*	8,279	23,070	26,310
Other expenses	5,151	7,000	*(26.4)*	5,973	*(13.8)*	11,124	3,940	4,370
Total expenditure	9,978	13,064	*(23.6)*	11,566	*(13.7)*	21,545	43,356	48,871
EBITDA	1,578	1,727	*(8.6)*	1,720	*(8.3)*	3,297	6,922	6,895
Depreciation	348	438	*(20.4)*	355	*(1.9)*	703	1,478	1,557
EBIT	1,229	1,289	*(4.7)*	1,365	*(9.9)*	2,594	5,443	5,339
Interest	1,246	1,149	*8.4*	1,198	*3.9*	2,444	5,001	4,762
Other income	153	207	*(25.8)*	188	*(18.3)*	341	785	795
Add: Prior period items								
Add: Exceptional items								
Profit before tax	137	347	*(60.5)*	354	*(61.3)*	492	1,228	1,371
Provision for taxes	62	103	*(39.5)*	145	*(57.1)*	208	417	466
Reported net profit	75	244	*(69.4)*	209	*(64.2)*	284	810	905
Adjusted Profit	75	244	*(69.4)*	209	*(64.2)*	284	810	905
Equity capital	115	115		115		115	121	121
Diluted shares (mn)	57	57		57		57	60	60
Adjusted Diluted EPS	1.3	4.3	*(69.4)*	3.6	*(64.2)*	4.9	13.4	15.0
as a % of net revenues								
Direct costs	33.0	32.6		33.6		33.3	42.6	43.8
Other expenses	53.4	55.7		53.4		53.4	44.7	44.8
EBITDA	13.7	11.7		12.9		13.3	12.8	11.5
Reported net profit	0.6	1.7		1.6		1.1	1.5	1.5
Tax rate	45.5	29.7		41.0		43.3	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.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.3	6.8
Inflation (Avg)	3.6	3.4	3.7	4.0
Repo rate (exit rate)	6.0	6.3	4.5	4.5
USD/INR (Avg)	64.5	70.0	71.0	71.0
Company				
Raw Material (% net rev)	33.0	32.8	31.6	32.8
Order intake (INR bn)	79	34	44	64
Y-o-Y growth (%)	*(2.3)*	*(56.3)*	*29.1*	*45.1*
Book-to-bill ratio (x)	3.2	2.7	2.8	2.6
Order backlog (INR bn)	186	160	150	155
Order backlog growth (%)	12.7	(14.0)	(6.1)	2.8
Revenue growth (% yoy)	3	5	(10)	11
Job work (as % of sales)	28.3	28.3	28.3	28.4
Other mfg(as % of sales)	11.0	11.0	11.0	11.0
Salary (% of revenues)	9.2	9.2	9.1	9.1
Other admin (% net rev)	7.3	7.3	7.3	7.3
Avg. Interest rate (%)	13.2	13.5	13.5	13.5
Depreciation rate (%)	11.3	9.9	8.4	8.4
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	496	725	1,045
Debtor days	357	354	430	400
Inventory days	66	63	71	64
Payable days	162	150	192	170
Other creditors days	160	153	181	183
Provisions days	1	1	1	1
Incremental debt	2,115	(841)	(1,500)	(3,000)

Income statement **(INR mn)**

Year to March	FY18	FY19	FY20E	FY21E
Income from operations	57,662	60,415	54,218	60,136
Direct costs	25,343	28,049	23,070	26,310
Employee costs	21,604	21,119	20,286	22,561
Other Expenses	4,219	4,143	3,940	4,370
Total operating expenses	51,166	53,312	47,296	53,241
EBITDA	6,496	7,103	6,922	6,895
Depreciation	1,834	1,677	1,478	1,557
EBIT	4,662	5,426	5,443	5,339
Less: Interest Expense	4,516	4,708	5,001	4,762
Add: Other income	1,363	1,119	785	795
Profit Before Tax	1,509	1,837	1,228	1,371
Less: Provision for Tax	340	611	417	466
Reported Profit	1,170	1,226	810	905
Adjusted Profit	1,170	1,226	810	905
Shares o /s (mn)	50	57	60	60
Adjusted Basic EPS	23.6	21.4	13.4	15.0
Diluted shares o/s (mn)	50	57	60	60
Adjusted Diluted EPS	23.6	21.4	13.4	15.0
Adjusted Cash EPS	63.4	59.4	37.9	40.8
Dividend per share (DPS)	0.5	0.5	0.5	0.5
Dividend Payout Ratio (%)	2.6	2.8	4.4	3.9

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	88.7	88.2	87.2	88.5
EBITDA margins	11.3	11.8	12.8	11.5
Net Profit margins	2.0	2.0	1.5	1.5

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	2.8	4.8	(10.3)	10.9
EBITDA	5.4	9.3	(2.6)	(0.4)
PBT	12.1	21.7	(33.2)	11.7
Adjusted Profit	(2.8)	4.8	(33.9)	11.7
EPS	(2.8)	(9.3)	(37.2)	11.7

Balance sheet (INR mn)

As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	99	115	121	121
Reserves & Surplus	16,246	20,379	21,902	22,772
Shareholders' funds	16,346	20,494	22,023	22,893
Long term borrowings	5,511	3,713	2,213	713
Short term borrowings	29,858	30,815	30,815	29,315
Total Borrowings	35,369	34,528	33,028	30,028
Long Term Liabilities	103	78	78	78
Def. Tax Liability (net)	1,207	584	584	584
Sources of funds	**53,024**	**55,684**	**55,713**	**53,583**
Gross Block	16,571	17,078	17,778	18,778
Net Block	10,962	10,166	9,400	8,861
Capital work in progress	99	84	84	84
Intangible Assets	16	9	23	50
Total Fixed Assets	11,076	10,260	9,506	8,995
Non current investments	1,341	1,299	1,299	1,299
Cash and Equivalents	1,049	1,106	1,515	1,461
Inventories	7,561	7,739	7,201	8,010
Sundry Debtors	59,837	63,088	64,658	67,147
Loans & Advances	6,975	6,910	6,450	7,154
Other Current Assets	4,304	4,855	4,104	4,552
Current Assets (ex cash)	78,678	82,593	82,413	86,862
Trade payable	19,869	21,348	19,053	21,352
Other Current Liab	19,250	18,225	19,968	23,683
Total Current Liab	39,119	39,574	39,021	45,035
Net Curr Assets-ex cash	39,558	43,019	43,392	41,828
Uses of funds	**53,024**	**55,684**	**55,713**	**53,583**
BVPS (INR)	329.2	357.3	365.1	379.5

Free cash flow (INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	1,170	1,226	810	905
Add: Depreciation	1,834	1,677	1,478	1,557
Interest (Net of Tax)	3,499	3,142	3,300	3,143
Others	(3,356)	(2,640)	(3,300)	(3,143)
Less: Changes in WC	3,347	3,485	373	(1,565)
Operating cash flow	(200)	(80)	1,915	4,026
Less: Capex	958	496	725	1,045
Free Cash Flow	**(1,159)**	**(576)**	**1,190**	**2,981**

Cash flow metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	(200)	(80)	1,915	4,026
Financing cash flow	2,085	3,397	(781)	(3,035)
Investing cash flow	(1,165)	(3,643)	(725)	(1,045)
Net cash Flow	720	(327)	409	(54)
Capex	(958)	(496)	(725)	(1,045)
Dividend paid	(30)	(34)	(35)	(35)

Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	7.4	6.7	3.8	4.0
ROACE (%)	12.0	12.3	11.3	11.4
Inventory Days	66	63	71	64
Debtors Days	357	371	430	400
Payable Days	322	324	373	353
Cash Conversion Cycle	101	110	128	111
Current Ratio	2.0	2.1	2.2	2.0
Gross Debt/EBITDA	5.4	4.9	4.8	4.4
Gross Debt/Equity	2.2	1.7	1.5	1.3
Adjusted Debt/Equity	2.2	1.7	1.5	1.3
Net Debt/Equity	2.1	1.6	1.4	1.2
Interest Coverage Ratio	1.0	1.2	1.1	1.1

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	5.5	6.6
Equity Turnover	3.6	3.3	2.6	2.7

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	23.6	21.4	13.4	15.0
Y-o-Y growth (%)	*(2.8)*	*(9.3)*	*(37.2)*	*11.7*
Adjusted Cash EPS (INR)	63.4	59.4	37.9	40.8
Diluted P/E (x)	2.1	2.3	3.7	3.3
P/B (x)	0.2	0.1	0.1	0.1
EV / Sales (x)	0.6	0.6	0.6	0.5
EV / EBITDA (x)	5.7	5.1	5.0	4.6
Dividend Yield (%)	1.0	1.0	1.0	1.0

Peer comparison valuation

	Market cap	EV / EBITDA (X)		P/B (X)		ROAE (%)	
Name	(USD mn)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Simplex Infrastructures Ltd	39	5.0	4.6	0.1	0.1	3.8	4.0
Nagarjuna Construction Co	467	2.6	2.9	0.7	0.6	7.8	11.3
Median	-	3.8	3.7	0.4	0.4	5.8	7.7
AVERAGE	-	3.8	3.7	0.4	0.4	5.8	7.7

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 7

	Perc. Holding		Perc. Holding
Reliance Capital	9.08	HDFC AMC	8.87
Master Trust Bank of Japan	2.89	Nippon Life Insurance Co	2.89
HSBC	1.78	Kotak AMC	1.77
South Asia Finvest Pvt Ltd.	1.09		

*as per last 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
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, Capacit'e Infraprojects Limited, 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
18-Nov-19	**J Kumar Infraprojects**	Execution ramps up; order-wins bring cheer; *Result Update*	160	Buy
15-Nov-19	**NBCC**	No end to woes; *Result Update*	37	Reduce
15-Nov-19	**KNR Constructions**	Robust performance; buoyant outlook; *Result Update*	245	Buy

1Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

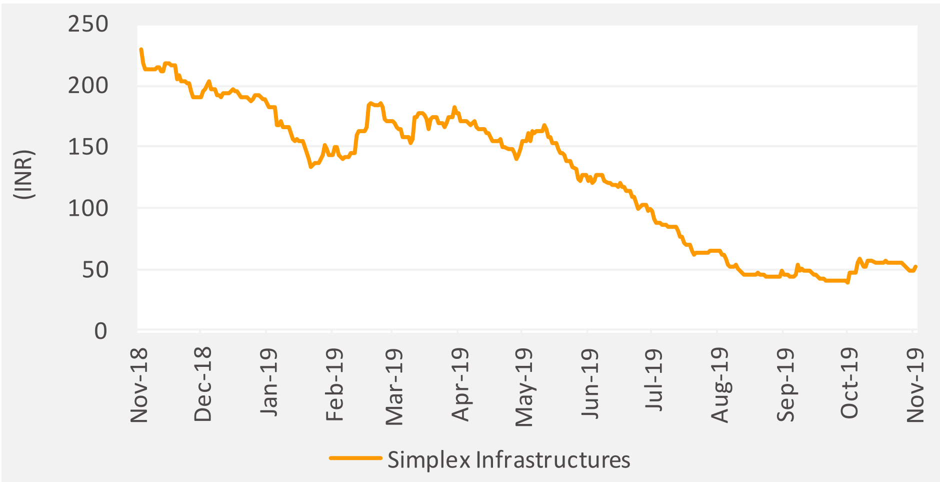
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	229

	> 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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