

## Simplex Infrastructures Ltd

### Lower revenue, higher interest cost impacted bottomline

Simplex Infrastructure (SINF) reported 6% revenue, 30% earnings growth in Q1FY11. Revenues were 8% lower than our estimates and earnings were 17% lower despite higher operating margins, as higher interest cost and lower other income impacted bottomline. Order inflow was robust at Rs 18.6bn, which has taken order backlog to Rs 123bn, 2.3x FY11E sales. In order to maintain its revenue growth, SINF has bid for Rs 400bn of orders. We expect SINF to report 18% revenue, 21% earnings growth over FY10-12E. Our March '11 target price is Rs 490, based on 13x FY12 EPS. In absence of any positive triggers as well as possibility of impact on earnings due to rise in interest cost, we assign a SELL.

**Revenues likely to pick up in H2FY11:** While domestic business witnessed robust growth of 29% YoY (Rs 9.8bn v/s Rs 7.6bn), revenues from international business declined 44% YoY to Rs 1.9bn, which impacted overall topline growth in Q1. Management indicated that revenues are likely to pick in H2FY11.

**Rise in cost of debt has begun to bite into profits:** Q1 interest cost was up 26% QoQ even though gross debt increased by 5% QoQ. As we had highlighted in our June 2010 report – "India Infrastructure: Accelerating Investments – Unprecedented opportunities", SINF's profits are susceptible to risk from rise in cost of debt. In FY10, interest cost (excluding bank guarantee charges) was 2.2% of sales and 49% of PBT. We have factored in a 100bps YoY increase in FY11.

**New orders of Rs 18.6bn in Q1; order backlog of Rs 123bn, 2.3x FY11 sales, bid pipeline of Rs 400bn:** 79% of new orders came from bridges (28%), buildings (21%), power (15%) and piling (15%). Private sector accounted for 80% of new orders, while in terms of geography, 32% came from international markets. Management indicated that international markets (primarily Middle East) are improving, and it is now possible to get profitable orders. SINF has bid for Rs 400bn of orders, which is required to keep the revenue momentum going.

**Maintained revenue growth guidance of 15-20%:** The management has maintained its full year revenue growth guidance at 15-20%. We maintain our numbers and expect SINF to report 18% revenue, 21% earnings growth over FY10-12E.

**Expect 17%/21% revenue/earnings CAGR through FY12 – Sell:** Our March '11 price target of Rs 490 is based on a P/E multiple of 13x on FY12E EPS. In absence of any triggers and concerns of potential rise in interest cost, we maintain Sell.

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 480	Rs 490	SELL	HIGH

BSE	NSE	BLOOMBERG
523838	SIMPLEXINF	SINF IN

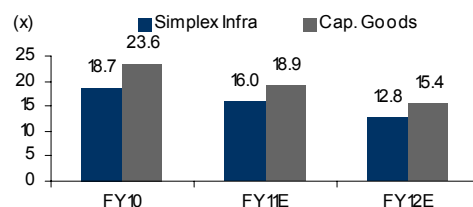
#### Company data

Market cap (Rs mn / US\$ mn)	23,746 / 508
Outstanding equity shares (mn)	49
Free float (%)	45.9
Dividend yield (%)	0.4
52-week high/low (Rs)	564 / 355
2-month average daily volume	14,678

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Simplex Infra	480	1.1	(2.5)	10.7
Sensex	18,167	1.0	5.2	12.5

#### P/E comparison



#### Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	18.7	16.0	12.8	10.7
P/E @ Target	18.9	16.2	13.0	10.8
EV/EBITDA @ CMP	8.1	6.8	5.7	4.7

In the interest of timeliness this report has not been edited.

#### Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	45,525	52,537	63,045	75,654
Growth (%)	(3.1)	15.4	20.0	20.0
Adj net income	1,272	1,481	1,848	2,225
Growth (%)	14.2	18.8	20.0	20.0
FDEPS (Rs)	25.7	29.9	37.4	45.0
Growth (%)	3.1	16.5	24.8	20.4

#### Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	9.7	10.0	10.0	10.0
EBIT margin	6.3	6.8	6.8	6.9
Adj PAT margin	2.8	2.8	2.9	2.9
ROE	13.5	14.3	15.7	16.2
ROIC	8.8	8.3	7.5	7.8
ROCE	10.2	7.3	7.7	8.0





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	11,970	13,005	(8.0)
EBITDA	1,240	1,301	(4.7)
Adj net income	360	434	(17.0)
FDEPS (Rs)	7.3	8.8	(17.0)

Source: RCML Research

Revenues were lower by 8%; PAT was 17% lower than earnings despite better than expected EBITDA margins, as higher interest cost, lower other income impacted profits

**Fig 2 - Quarterly performance**

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Net sales	11,970	11,309	5.8	12,811	(6.6)
Expenditure	10,730	10,148	5.7	11,486	(6.6)
EBITDA	1,240	1,161	6.8	1,325	(6.4)
Other income	(10)	14	(170.4)	3	(433.3)
Interest	280	348	(19.5)	222	26.1
Depreciation	400	383	4.4	409	(2.2)
PBT	550	444	23.8	697	(21.1)
Tax	180	160	12.5	258	(30.3)
Reported PAT	370	284	30.1	439	(15.7)
Adj. PAT	360	276	30.3	445	(19.2)
EBITDA margin (%)	10.4	10.3	10bps	10.3	10bps
FDEPS (Rs)	7.3	5.6	30.3	9.0	(19.2)

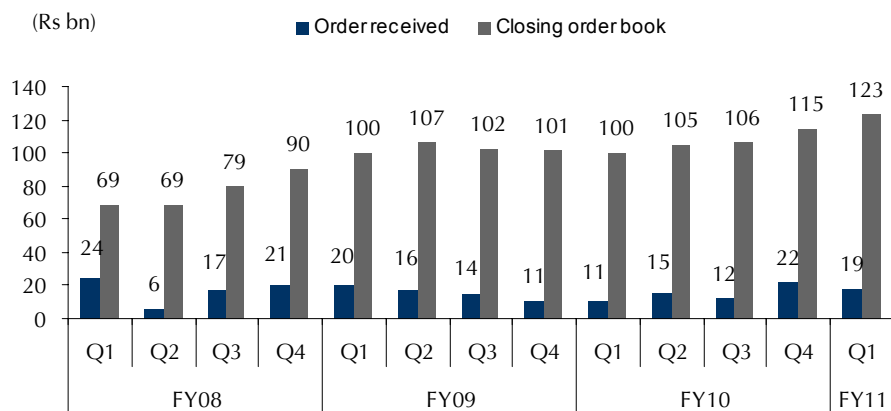
Source: Company, RCML Research

Sales growth came out at 6% YoY in Q1; Management has guided for 15-20% revenue growth in FY11

Interest cost, up 26% QoQ, has begun to bite into profits

Order backlog has finally begun to rise, which will support our FY10-12E revenue CAGR estimate of 18%

**Fig 3 - Quarterly order backlog trend**

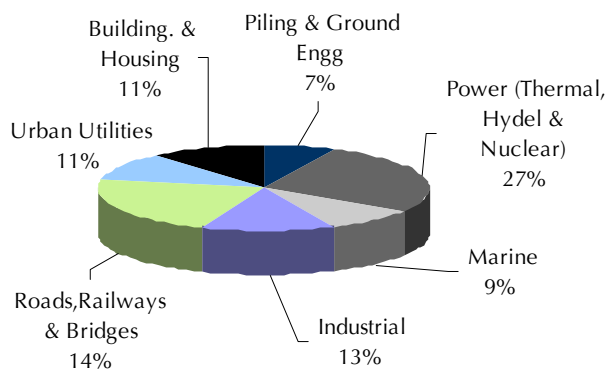


Source: Company, RCML Research



Power segment contributed 27% to Q1 revenue...

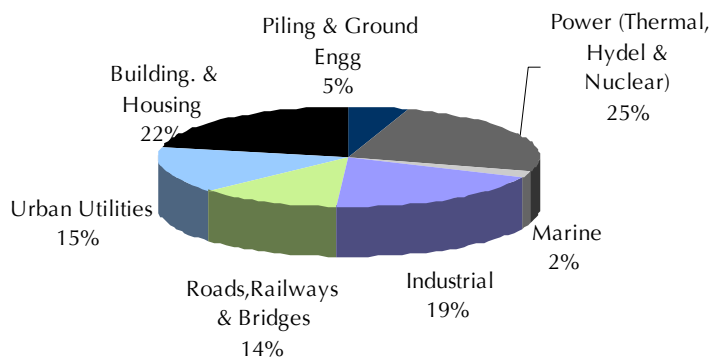
Fig 4 - Q1FY11 revenue composition (total of ~Rs 12bn)



Source: Company, RCML Research

.. and forms 25% of current order backlog

Fig 5 - Order backlog composition at June end (total of Rs 123bn)



Source: Company, RCML Research



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>45,685</b>	<b>52,537</b>	<b>63,045</b>	<b>75,654</b>
<i>Growth (%)</i>	(2.7)	15.0	20.0	20.0
<b>EBITDA</b>	<b>4,611</b>	<b>5,254</b>	<b>6,304</b>	<b>7,565</b>
<i>Growth (%)</i>	19.1	13.9	20.0	20.0
Depreciation & amortisation	1,573	1,719	2,022	2,395
EBIT	3,039	3,534	4,283	5,170
<i>Growth (%)</i>	19.0	16.3	21.2	20.7
Interest	1,217	1,479	1,663	1,986
Other income	184	190	190	190
EBT	2,006	2,245	2,810	3,375
Income taxes	715	746	934	1,121
Effective tax rate (%)	35.6	33.2	33.2	33.2
Extraordinary items	-	-	-	-
Min into / inc from associates	19	20	20	20
Reported net income	1,272	1,479	1,857	2,234
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>1,272</b>	<b>1,479</b>	<b>1,857</b>	<b>2,234</b>
<i>Growth (%)</i>	3.1	16.3	25.5	20.3
Shares outstanding (mn)	49.5	49.5	49.5	49.5
<b>FDEPS (Rs) (adj)</b>	<b>25.7</b>	<b>29.9</b>	<b>37.5</b>	<b>45.2</b>
<i>Growth (%)</i>	3.1	16.3	25.5	20.3
DPS (Rs)	2.0	2.0	2.0	2.0

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,844	3,199	3,878	4,629
Non-cash adjustments	324	120	120	120
Changes in working capital	(3,081)	(2,391)	(3,611)	(4,343)
Cash flow from operations	88	927	388	406
Capital expenditure	(867)	(1,520)	(1,620)	(1,920)
Change in investments	(9)	(291)	(379)	(100)
Other investing cash flow	-	-	-	-
Cash flow from investing	(876)	(1,811)	(1,999)	(2,020)
Issue of equity	-	-	-	-
Issue/repay debt	815	1,000	1,900	2,000
Dividends paid	(116)	(119)	(119)	(119)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	(88)	(3)	170	267
Closing cash & cash eq	1,101	1,098	1,268	1,535

### Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	12.8	12.8	12.8	12.8
ROIC (%)	8.8	8.3	7.5	7.8
Invested capital (Rs mn)	21,712	35,680	41,374	47,920
EVA (Rs mn)	(881)	(1,627)	(2,222)	(2,426)
EVA spread (%)	(4.1)	(4.6)	(5.4)	(5.1)

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	1,101	1,098	1,268	1,535
Accounts receivable	19,000	21,591	25,909	31,091
Inventories	6,593	8,345	9,814	11,541
Other current assets	5,144	6,333	7,600	9,120
Investments	30	321	700	800
Gross fixed assets	13,000	14,520	16,140	18,060
Net fixed assets	9,873	10,252	10,606	11,115
CWIP	200	200	200	200
Intangible assets	-	-	-	-
Deferred tax assets, net	(884)	(984)	(1,084)	(1,184)
Other assets	(30)	(30)	(30)	(30)
<b>Total assets</b>	<b>41,028</b>	<b>47,127</b>	<b>54,983</b>	<b>64,188</b>
Accounts payable	-	-	-	-
Other current liabilities	17,614	21,332	25,531	30,601
Provisions	120	120	120	120
Debt funds	13,020	14,020	15,920	17,920
Other liabilities	34	54	74	94
Equity capital	99	99	99	99
Reserves & surplus	10,142	11,502	13,240	15,355
Shareholder's funds	10,241	11,601	13,339	15,454
<b>Total liabilities</b>	<b>41,028</b>	<b>47,127</b>	<b>54,983</b>	<b>64,188</b>
BVPS (Rs)	207.0	234.5	269.6	312.4

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	9.7	10.0	10.0	10.0
EBIT margin	6.3	6.8	6.8	6.9
Net profit margin	2.8	2.8	2.9	2.9
ROE	13.5	14.3	15.7	16.2
ROCE	10.2	7.3	7.7	8.0
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	140	138	138	138
Inventory (days)	63	61	61	60
Payables (days)	91	87	83	83
Current ratio (x)	1.8	1.8	1.7	1.7
Quick ratio (x)	1.1	1.0	1.0	1.0
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	3.6	3.9	4.2	4.5
Total asset turnover	1.1	1.2	1.2	1.3
Interest coverage ratio	2.3	2.4	2.5	2.6
Adjusted debt/equity	1.3	2.3	2.3	2.3
<b>Valuation ratios (x)</b>				
EV/Sales	0.8	0.7	0.6	0.5
EV/EBITDA	8.1	6.8	5.7	4.7
P/E	18.7	16.0	12.8	10.7
P/BV	2.4	2.2	1.9	1.6



### Quarterly trend

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	11,309	10,564	11,001	12,811	11,970
YoY growth (%)	11.1	4.8	(13.4)	(7.7)	5.8
QoQ growth (%)	(18.5)	(6.6)	4.1	16.4	(6.6)
EBITDA (Rs mn)	1,161	1,097	1,028	1,325	1,240
EBITDA margin (%)	10.3	10.4	9.3	10.3	10.4
Adj net income (Rs mn)	284	296	272	439	370
YoY growth (%)	(32.4)	(2.6)	7.6	47.1	30.1
QoQ growth (%)	(4.8)	4.0	(8.1)	61.6	(15.7)

### DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	71.2	63.4	65.9	66.1	66.2
Interest burden (PBT/EBIT)	67.8	70.4	63.2	65.0	64.7
EBIT margin (EBIT/Revenues)	5.4	6.3	6.8	6.8	6.9
Asset turnover (Revenues/Avg TA)	141.1	114.4	120.3	124.2	127.6
Leverage (Avg TA/Avg equity)	400.5	421.9	421.6	430.6	432.5
<b>Return on equity</b>	<b>14.8</b>	<b>13.5</b>	<b>14.3</b>	<b>15.7</b>	<b>16.2</b>

### Company profile

Simplex Infrastructure is a large, well-established construction company with experience in civil and structural construction since 1924. The company's service offerings include design, engineering and construction, fittings and finishing work on structures, piling foundations, ground engineering and earth works. Simplex has a presence across various construction verticals – piling, industrial, power, urban infrastructure, buildings and housing, marine and roads, railways and bridges.

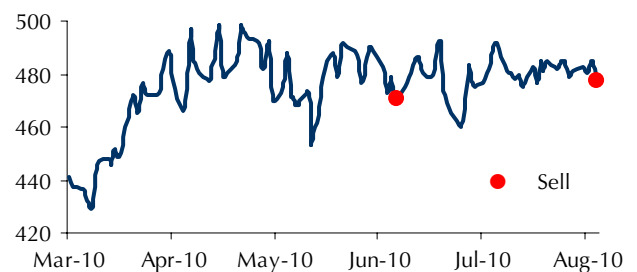
### Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	54.7	54.7	54.7
FIs	12.8	12.6	12.6
Banks & FIs	19.0	19.9	20.9
Public	13.5	12.7	11.8

### Recommendation history

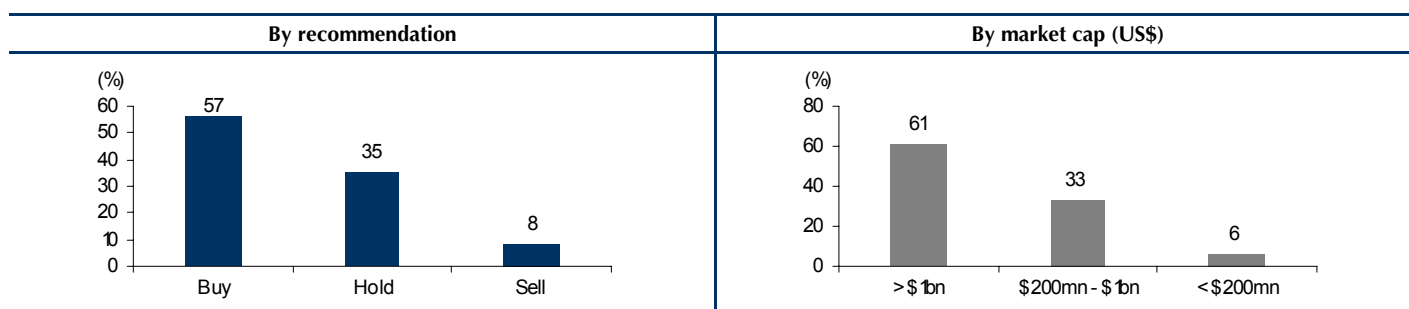
Date	Event	Reco price	Tgt price	Reco
24-Jun-10	Initiating Coverage	470	490	Sell
16-Aug-10	Results Review	480	490	Sell

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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