



Simplex Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,310	SINF IN
	REUTERS CODE
S&P CNX: 6,122	SINF.BO

15 November 2010

Buy

Rs479

Previous Recommendation: Buy

Equity Shares (m)	49.5
52-Week Range (Rs)	563/396
1,6,12 Rel. Perf. (%)	1/-18/-27
M.Cap. (Rs b)	23.7
M.Cap. (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EYI	EVI
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/09A	46,627	1,318	26.6	29.1			15.9	16.7		
3/10A	44,427	1,227	24.8	-6.9	17.9	2.3	13.1	13.3	0.8	7.9
3/11E	53,675	1,698	34.3	38.4	14.0	2.1	16.2	15.2	0.7	7.1
3/12E	67,764	2,251	45.5	32.6	10.5	1.8	18.3	17.1	0.6	5.8

- Profit down 3.8%, below estimates:** Simplex Infrastructure (SIL) posted 2QFY11 revenue of Rs10.5b (up 2.6% YoY), which was below our estimate of Rs10.8b (up 5.7% YoY). EBITDA of Rs1.05b (down 0.7% YoY) was also below our estimates of Rs1.08b (up 1.7% YoY). EBITDA margins were 10.4%, down 30bp YoY. Net profit was down 3.8% YoY at Rs269m, below our estimate of Rs297m (up 6.4% YoY) mainly due to higher-than-estimated interest costs. In 2QFY11 net working capital days increased to 124, an increase of 12 days compared with 1QFY11 and as a percentage of revenue, it was 19% against 30% in FY10. In FY09, Simplex incurred capex of Rs4b and in FY10, capex declined to Rs880m. For FY11 it stands at Rs1.25b.
- Management guides FY11 revenue growth of 15-20%:** The company expects revenue growth of 15-20% in FY11. This compares with revenue de-growth of 5% in FY10. FY11 EBITDA margins are expected to be sustained at 10.3-10.5%. FY10 margins were up 80bp YoY at 10.2% and are a reflection of increased focus on picking and choosing orders. Improved revenue growth in FY11 will also lead to better fixed cost absorption.
- 2QFY11 order book Rs129b (up 23% YoY, up 5.7% QoQ):** Simplex's order book for at the end 2QFY11 was Rs129b (up 23% YoY and up 5.7% QoQ). 2QFY11 order intake was Rs22b, up 46% YoY and Rs40b in 1HFY11, up 57% YoY. The company is L1 in projects worth Rs12b. In 2QFY11, the thermal power and buildings segment witnessed meaningful traction for Simplex.
- Valuation and view:** We expect FY11 EPS of Rs34.3 (up 39% YoY) and FY12 EPS of Rs45.5 (up 33% YoY). At CMP, the stock trades at 14x FY11E and 10.5x FY12E. We rate the stock a **Buy** with a target price of Rs546 (12x FY12E), an upside of 14%.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	11,097	10,252	10,668	12,521	11,768	10,515	13,419	17,974	44,538	53,675
Change %	9.0	2.0	(16.0)	(9.8)	6.0	2.6	25.8	43.5	(5.0)	20.5
Total Expenses	9,980	9,187	9,699	11,234	10,567	9,458	12,211	16,126	9,980	9,699
EBITDA	1,118	1,065	969	1,287	1,201	1,057	1,208	1,848	4,440	5,314
Change %	0.2	7.8	(16.2)	14.6	7.4	(0.7)	24.6	43.6	3.8	19.7
As % of sales	10.2	10.7	9.5	10.5	10.3	10.4	9.4	11.0	10.2	10.3
Other Income	14	30	44	30	9	34	55	126	116	224
Interest	348	289	262	214	281	295	320	412	1,112	1,309
Depreciation	381	383	391	379	390	400	415	451	1,534	1,656
PBT	404	423	359	724	539	396	528	1,111	1,911	2,573
As % of sales	3.6	4.1	3.4	5.8	4.6	3.8	3.9	6.2	4.3	4.8
Change %	(33.0)	9.8	10.7	107.7	25.8	(8.8)	16.8	6.8	13.4	11.7
Tax	147	144	129	265	177	127	179	392	685	875
Tax / PBT	36.4	34.0	35.8	36.6	32.8	32.1	34.0	35.3	35.8	34.0
PAT	257	279	231	459	362	269	348	719	1,226	1,698
Adjusted PAT	257	279	231	459	362	269	348	719	1,226	1,698
As % of sales	2.3	2.7	2.2	3.7	3.1	2.6	2.6	4.0	2.8	3.2
Change %	(39.0)	(7.7)	(23.7)	53.8	41.1	(3.8)	50.9	56.5	(7.4)	38.5

E: MOSL Estimates

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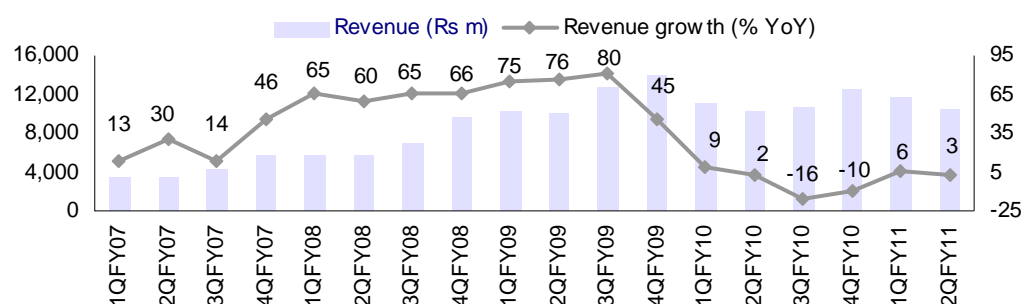
Simplex performance below estimates (execution impacted, EBITDA margins sustained)

- Simplex reported 2QFY11 revenue of Rs10.5b (up 2.6% YoY), below our estimate of Rs10.8b (up 5.7% YoY). EBITDA was Rs1.05b (down 0.7% YoY), below our estimates of Rs1.08b (up 1.7% YoY), EBITDA margins were 10.4% down 30bp YoY. Net profit was down 3.8% YoY at Rs269m, lower than our estimate of Rs297m (up 6.4% YoY) mainly due to higher-than-estimated interest costs.
- Execution was impacted in 2QFY11, largely due to a slowdown in overseas business (down 55% YoY at Rs1.23b in 2QFY11) and above average monsoon in domestic markets. In 2QFY11 domestic revenue grew 25% YoY. Order-book was buoyant at Rs129b up 23% YoY and up 5.7% QoQ.
- EBITDA margins in 2QFY11 were 10.3% (down 30bp YoY). The management indicated that margins on the existing order book were 10.5%+, and the incremental orders were at similar margins. A change in composition of the order book towards the power segment is positive, given better margins. Power accounts for almost 25% of the order backlog of Rs129b.
- Net interest costs increased to Rs295m in 2QFY11 v/s Rs289m in 2QFY10, driven by high interest rates, which were 7.2% in 2QFY11, up from 6.24% in 1QFY11. Debt as at the end of September 2010 were Rs14b. The management indicated that average interest costs were expected to be about 7.5% in FY11.

Management guides for FY11 revenue growth of 15-20%, EBITDA margin of 10.5-10.7%

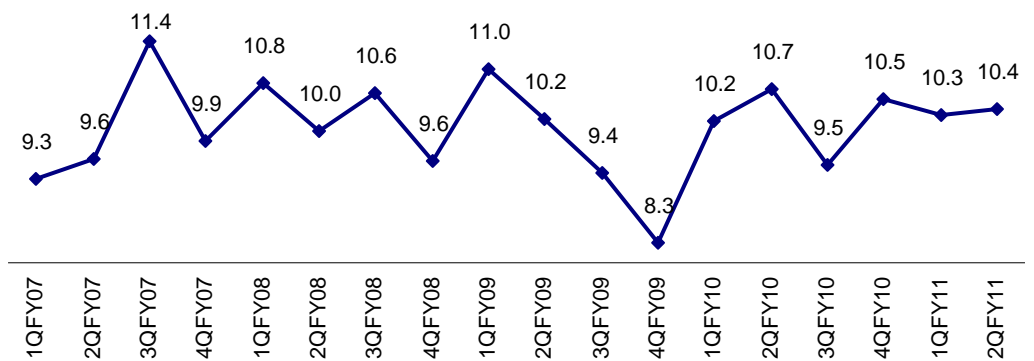
- FY11 revenue growth will be up 15-20%. This compares with revenue de-growth of 5% YoY in FY10. To meet the 15% growth target in FY11, Simplex should grow 25% in 2HFY11, which seems aggressive.
- FY11 EBITDA margins are expected to be sustained at 10.5-10.7%. FY10 margins were up 80bp YoY at 10.2% and are a reflection of increased focus on picking and choosing orders. Improved revenue growth in FY11 will lead to better fixed cost absorption.
- Financial closure of a Rs12b BOT road project (four-laning of 67km of road between Chennai and Kolkata) will be achieved in the next six months after which the EPC work on the stretch will start. Simplex owns a 34% stake in the project followed by SREI-Infra (40%) and Gulfar (26%). The company's order-book includes an order of Rs5b from this project.
- We expect Simplex to record revenue and PAT CAGR of 23% and 35% over FY10-12 respectively and EBITDA margins of 10.3%.

Execution impacted revenue in 2QFY11



Source: Company/MOSL

EBITDA margins maintained in 2QFY11 (%)

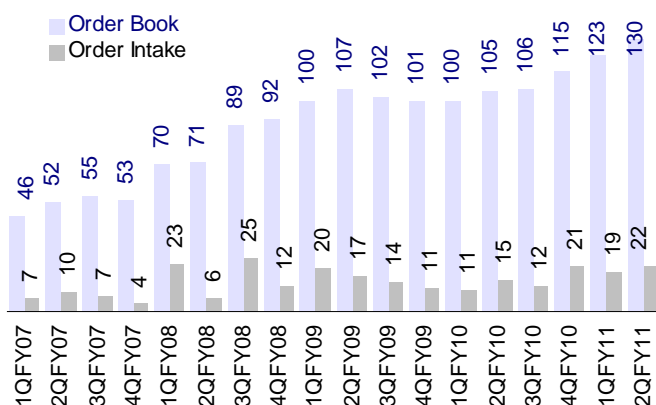


Source: Company/MOSL

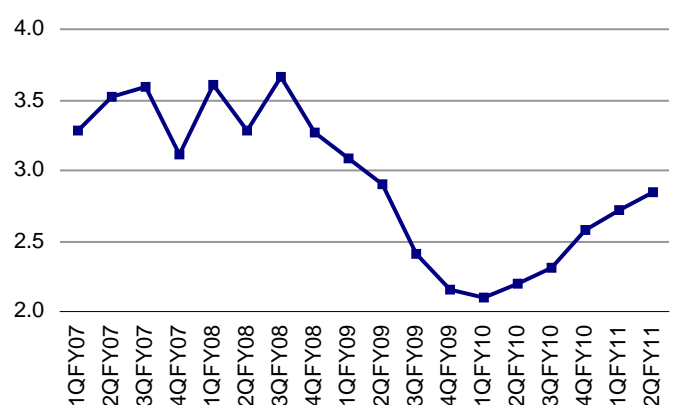
2QFY11 order book Rs129b (up 23% YoY, up 5.7% QoQ)

- Simplex's order book at the end 2QFY11 was Rs129b (up 23% YoY and up 5.7% QoQ). Order intake was Rs22b, up 46% YoY, and Rs40b in 1HFY11, up 57% YoY.
- The company is L1 in projects of Rs12b. Improved order intake in 2QFY11 validates the strong recovery in the domestic market though intake in the international business is sluggish.
- In 2QFY11 there was meaningful traction in the thermal power and buildings segment for Simplex, with the share of buildings in the order book increasing to 21% (v/s 15% in 2QFY10) and the share of power at 25% currently. The industrial segment witnessed flat intake in 2QFY11, and contribution to the order book increased to 17% in September. Thus, Simplex has been the beneficiary of a pick-up in the buildings and thermal power plant segment. This is also positive for revenue as most of them are short gestation orders, resulting in faster revenue booking for the company.
- We believe that given improved fund availability, better project economics and increased focus on execution by private developers, the power sector should be a key contributor to order intake in FY11. This is also the case for buildings and industrial projects. This is also positive for margins and the working capital cycle, given that a large part of the private sector projects are on a negotiated basis (and not on L1). Inquiries from the Middle East have improved, largely in the power, industrials and buildings segments.

Traction in the order book, bid pipeline improves (Rs b)



Book-to-bill ratio: improves to 2.9x, positive for FY11 revenue growth



Source: Company/MOSL

Strong bid pipeline for power, industrial projects (%)

	2QFY11 order intake	1HFY11 order book break up	1HFY11 revenue break up	Pending bids break up
Buildings	28	21	9	11
Bridges	0	9	16	2
Industrial	6	17	15	40
Marine	5	3	6	2
Piling	6	5	8	8
Power	21	25	29	23
Roads	22	5	3	12
Urban Infrastructure	8	14	13	1
Railways	4	1	1	1
Total	100	100	100	100

Source: Company/MOSL

Balance sheet highlights (Rs m)

	30-Sep-10	30-Sep-09
Share holders funds		
Capital	993	993
Reserves and surplus	101,938	93,380
Loan funds	143,850	125,357
Deferred tax liability	9,368	6,903
Total	256,149	226,633
Fixed assets	101,585	100,040
Investments	3,527	2,604
Current assets, loans and advances		
Inventories	67,351	64,207
Sundry debtors	190,137	158,831
Cash and bank balance	5,366	7,227
Other current assets	12,148	13,245
Loans and advances	36,728	36,798
Current liabilities	160,590	156,319
Provisions	103	0
Total	256,149	226,633

Source: Company/MOSL

Working capital cycle deteriorates; limited capex of Rs1.25b in FY11; 1HFY11 capex of Rs750m

- In 2QFY11 net working capital days increased to 124, which saw an increase of 12 days from 1QFY11 and as a percentage of revenues it was 19% compared with 30% in FY10.
- In FY09, Simplex incurred capex of Rs4b and in FY10, capex declined to Rs880m. For FY11 it is expected to be Rs1.25b. The management said the company could manage ~25% increase in the order book on its existing equipment base and thus increased revenue in FY11 will entail operating leverage.
- Outstanding 2QFY11 debt was Rs14b, which includes working capital related borrowing of Rs10b. Cash on books was Rs536b.

Valuation and view

- We expect FY11 EPS of Rs34.3 (up 39% YoY) and FY12 EPS of Rs45.5 (up 33% YoY).
- At CMP, the stock trades at 13.4x FY11E and 10.1x FY12E. We rate the stock a **Buy** with a target price of Rs546 (12x FY12E), upside of 14%.

Simplex Infrastructures: an investment profile

Company description

Simplex Infrastructure (SIL) began operations (after its takeover by the Mundra family in 1949), with a focus on high end piling contracts and power projects. Simplex has evolved as a diversified infrastructure player with presence in infrastructure segments. SIL has, over the past few years, built pre-qualifications for new verticals like roads, ports (marine), urban infrastructure, civil and industrial construction. Unlike peers, it has ~60% of business from the private clients/PPP and a presence in India and the Middle East. It derives ~35% of revenue from private clients/PPP, 35% from the central government and 30% from overseas.

Key investment arguments

- There is improved visibility in terms of order intake across segments/geographies. Order backlog at the end of September 2010 was Rs129b.
- Simplex has one of the most diversified businesses with a presence in the infrastructure sector. It derives ~22% of its order book from the Middle East, reducing the risk of over dependence on the Indian market. The private sector contributes 51% of the order book, which has better payment terms.

EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	34.3	32.3	6.2
FY12	45.5	39.4	15.5

Shareholding Pattern (%)

	Sep-10	Jun-10	Sep-09
Promoter	54.7	54.7	54.7
Domestic Inst	20.9	20.9	19.0
Foreign	12.7	12.6	12.4
Others	11.7	11.8	13.9

Key investment risks

- Simplex has an order book to bill ratio of 2.9x, which has improved in the past 2-3 quarters but still among the lowest in the past six years. This will impact near term revenue growth.
- Higher capex in FY09 considerably impacted profitability and return ratios.

Valuations and view

- We expect FY11 EPS of Rs34.3 (up 39% YoY) and FY12 EPS of Rs45.5 (up 33% YoY).
- At CMP, the stock trades at 13.4x FY11E and 10.1x FY12E. We rate the stock a **Buy** with a target price of Rs546 (12x FY12E), upside of 14%.

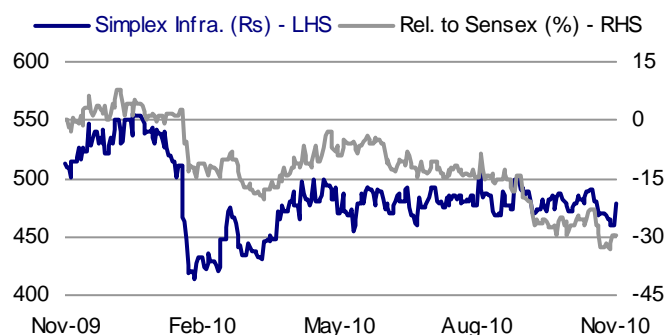
Sector view

- There has been marginal revival in order intake from public and private clients. Going forward while the public capex would be strong, the private capex could also revive. Inquiries from the Middle East are expected to improve. We are positive on the pick up in infrastructure spending and thus the construction sector.

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
479	546	14.0	Buy

Stock performance (1 year)



Financials and valuation

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2008	2009	2010	2011E	2012E	
Net Sales	28,121	46,627	44,427	53,675	67,764	
<i>Change (%)</i>	<i>64.4</i>	<i>65.8</i>	<i>-4.7</i>	<i>20.8</i>	<i>26.2</i>	
Materials Consumed	24,318	40,821	38,224	46,348	58,616	
Other Admin. Exp.	1,128	1,849	1,873	2,013	2,541	
EBITDA	2,675	3,956	4,330	5,314	6,607	
<i>% of Net Sales</i>	<i>10.4</i>	<i>9.4</i>	<i>10.3</i>	<i>10.3</i>	<i>10.1</i>	
Depreciation	643	1,299	1,534	1,656	1,907	
Interest	1,007	1,418	1,112	1,309	1,475	
Other Income	246	447	227	224	239	
PBT	1,271	1,686	1,911	2,573	3,463	
Tax	370	477	685	875	1,212	
<i>Rate (%)</i>	<i>29.1</i>	<i>28.3</i>	<i>35.8</i>	<i>34.0</i>	<i>35.0</i>	
Reported PAT	901	1,208	1,227	1,698	2,251	
Adjusted PAT	1,021	1,318	1,227	1,698	2,251	
<i>Change (%)</i>	<i>90.1</i>	<i>29.1</i>	<i>-6.9</i>	<i>38.4</i>	<i>32.6</i>	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2008	2009	2010	2011E	2012E	
Share Capital	99	99	99	99	99	
Reserves	7,432	8,923	9,597	11,145	13,199	
Net Worth	7,531	9,023	9,696	11,244	13,298	
Loans	7,493	12,205	13,024	15,444	15,944	
Deferred Tax Liability	371	579	883	883	883	
Capital Employed	15,396	21,806	23,604	27,571	30,125	
Gross Fixed Assets	7,567	12,066	12,509	14,509	17,009	
Less: Depreciation	1,272	2,052	2,832	4,488	6,395	
Net Fixed Assets	6,295	10,014	9,677	10,020	10,614	
Capital WIP	243	139	187	187	187	
Investments	99	201	277	277	277	
Curr. Assets	21,143	29,001	30,598	40,356	48,276	
Inventory	4,741	6,761	6,593	8,970	10,211	
Debtors	11,497	16,676	17,928	21,323	26,920	
Cash & Bank Balance	1,232	1,002	873	1,240	1,491	
Loans & Advances	2,839	3,312	3,868	6,617	7,798	
Other Current Assets	834	1,250	1,337	2,206	1,857	
Current Liab. & Pro	12,383	17,548	17,135	23,270	29,228	
Creditors	12,267	17,432	17,020	23,270	29,228	
Provisions	116	116	115	0	0	
Net Current Asset	8,760	11,453	13,463	17,087	19,048	
Application of Fun	15,397	21,806	23,604	27,571	30,125	

E: MCRSL Estimates

RATIOS						
Y/E MARCH	2008	2009	2010	2011E	2012E	
Basic (Rs)						
Adjusted EPS	20.6	26.6	24.8	34.3	45.5	
<i>Growth (%)</i>	<i>65.6</i>	<i>29.1</i>	<i>-6.9</i>	<i>38.4</i>	<i>32.6</i>	
Cash EPS	31.2	50.7	55.8	67.8	84.0	
Book Value	152.2	182.4	196.0	227.3	268.8	
DPS	2.0	2.0	1.9	2.6	3.4	
Payout (incl. Div. Tax.)	12.8	9.6	9.4	8.9	8.7	
Valuation (x)						
P/E (standalone)	22.2	11.2	17.9	14.0	10.5	
Cash P/E	14.7	5.9	8.0	7.1	5.7	
EV/EBITDA	10.8	6.6	7.9	7.1	5.8	
EV/Sales	1.0	0.6	0.8	0.7	0.6	
Price/Book Value	3.0	1.6	2.3	2.1	1.8	
Dividend Yield (%)	0.4	0.4	0.4	0.5	0.7	

Profitability Ratios (%)						
RoE	19.8	15.9	13.1	16.2	18.3	
RoCE	18.1	16.7	13.3	15.2	17.1	

Turnover Ratios						
Debtors (Days)	149	131	145	145	145	
Inventory (Days)	62	53	54	61	55	
Creditors (Days)	91	79	99	90	90	
Asset Turnover (x)	2.2	2.5	2.0	2.1	2.3	

Leverage Ratio						
Debt/Equity (x)	1.0	1.4	1.3	1.4	1.2	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2008	2009	2010E	2011E	2012E	
PBT before Extraordin	1,391	1,795	1,911	2,573	3,463	
Add: Depreciation	643	1,299	1,534	1,656	1,907	
Interest	1,007	1,418	1,112	1,309	1,475	
Less: Direct Taxes Pa	370	477	685	875	1,212	
(Inc)/Dec in WC	-1,807	-2,923	-2,139	-3,257	-1,710	
CF from Operator	744	1,002	1,733	1,406	3,923	
(Inc)/Dec in FA	-3,561	-4,914	-1,244	-2,000	-2,500	
(Pur)/Sale of Investme	-46	-102	-76	0	0	
CF from Investme	-3,608	-5,016	-1,321	-2,000	-2,500	
(Inc)/Dec in Network	4,177	607	-133	0	0	
(Inc)/Dec in Debt	617	4,711	819	2,420	500	
Less: Interest Paid	1,007	1,418	1,112	1,309	1,475	
Dividend Paid	116	116	115	150	197	
CF from Fin. Activ	3,671	3,784	-541	961	-1,172	
Inc/Dec of Cash	807	-230	-129	367	251	
Add: Beginning Balanc	425	1,232	1,002	873	1,240	
Closing Balance	1,232	1,002	873	1,240	1,491	

N O T E S



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Simplex Infrastructure

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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