

## SIMPLEX INFRASTRUCTURE

INR 346



Concrete growth

BUY

Simplex Infrastructure Limited (Simplex) declared its Q2FY07 results. Impressive revenues growth as displayed by a marginal Q-o-Q growth in the context of a seasonally weak quarter. Y-o-Y growth of revenues have been 30% to INR 3.6 bn.

Additionally, EBITDA margin improvement continues with EBITDA margin standing at 9.3% in Q2FY07 vis-à-vis 9% in Q1FY07. Consequently, EBITDA has grown 39% Y-o-Y and 4.5% Q-o-Q to INR 331 mn, compared to INR 238 mn in Q2FY06 and INR 317 mn in Q1FY07. Earnings have been muted at INR 71 mn, on account of a higher depreciation on capex of INR 810 mn in H1FY07 and higher tax incidence of 29%. Though net margin in Q2FY07 declined to 2% from 3% in Q1FY07, we expect profitability to improve as margins from overseas projects kick in, as well as front-ended cost pressures ease.

The composition of order backlog of INR 52 bn has shifted towards shorter duration building structure projects. Buildings contribute 27% to the total order backlog, roads contribute 25%, power 12%, industrial structures 19%, and marine and piling work contribute the balance.

#### \* Export markets continue to grow

Simplex is executing a number of projects in the Mid East geography, especially in Qatar, Doha, Bahrain, and Dubai. Simplex has extended its segmental diversification strategy to its overseas projects as well. Its overseas projects basket is diversified across projects like the metro rail project in Dubai, the Hilton Hotel project in Qatar, large piling and ground engineering projects in Bahrain, as well as bridge construction project in Sri Lanka. Overseas projects have an order backlog of INR 6 bn at Q2FY07-end and contributed 15% to revenues in the quarter. Contribution of overseas projects is expected to expand to ~40% over the next few years.

#### \* Valuations continue to be the most attractive vis-à-vis peers

On our EPS estimate of INR 20 and INR 34, the stock trades at a P/E of 17x and 10x for FY07E and FY08E, respectively. At a market capitalization of INR 15 bn, the market capitalization-to-order book ratio stands at 0.3x (based on current order backlog of INR 52 bn). Simplex continues to have the most attractive valuations within our construction basket. Sound growth prospects, a steady broad-basing of the order profile, a focused business strategy, and improving return ratios repose our faith in the stock. We maintain our 'BUY' recommendation.

#### Financials

Year to September	Q2FY07	Q2FY06	% change	Q1FY07	% change	FY06	FY07E
Revenues (INR mn)	3,563	2,745	29.8	3,520	1.2	13,427	19,747
EBITDA (INR mn)	331	238	39.0	317	4.5	1,181	1,842
Net profit (INR mn)	71	90	(21.2)	104	(32.2)	416	859
EPS (INR)	1.6	2.4	(32.9)	2.4	(32.2)	9.7	20
PE (x)						35.8	17.4
EV/EBITDA (x)						16.0	10.3
ROAE (%)						24.5	31.7

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Reuters : SMCP.BO  
Bloomberg : SCP IN

#### Market Data

52-week range (INR) : 2,725 / 305  
Share in issue (mn) : 43.1  
M cap (INR bn/USD mn) : 14.9 / 330.2  
Avg. Daily Vol. BSE/ ('000) : 18.4

#### Share Holding Pattern (%)

Promoters : 46.5  
MFs, FIs & Banks : 2.8  
FIIIs : 16.0  
Others : 34.7