

Simplex Infrastructures

MAINTAIN BUY

CMP Rs.697

TARGET Rs.1,080

Private Client Group

We had recommended a BUY on Simplex Infrastructures (Simplex) in our report dated October 05, 2007, since then it has given return of 55% approximately. Our investment rationale highlighted that the future growth of the company would come from increased order book, real estate development, onshore rig deployment and power & marine infrastructure business. Based on the future potential of its new initiatives, we expect the sales to grow at a CAGR of 51% between FY07 to FY10E. On the back of improved margins the bottom line growth would be stronger at CAGR of 102%. At Rs.690, the stock is trading at 17.2x FY09E our revised estimate EPS of Rs.40.5 and 8.6x FY10E EPS of Rs.81. We believe that the stock has limited downside from current levels and re-iterate our BUY call with revised price target of Rs1,080.

Sensex	20,813
Nifty	6,279

Stock Data

BSE Code	523838
NSE Code	SIMPLEXINF
Bloomberg	SINF@IN
Reuters	SMCP.BO

Shares Issued (mn)	42.8
Market Cap (Rs mn)	29,832
52 Wk H/L (Rs)	711/271
Face Value (Rs)	2
Avg. daily vol. (12-mths)	16,087

Key highlights

Increased and improved order book – We expect simplex to close the year with an order book of Rs.86 bn as against Rs.51 bn in the FY07. More over, there has been a change in the composition of order book, as the company is shifting its focus from the low margin business to high margin power and marine infrastructure business. It has recently bagged an order of Rs.8 bn in power and marine business. Power and marine business currently constitutes approximately 11-12% each of the order book.

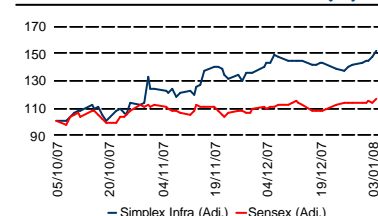
Improvement in margins – All the new contracts have been signed by the company at gross margins of 17-18%. Thus, we expect the company to report EBDITA margins of approximately 11% in FY09 and 12% in FY10. Simplex has recently raised Rs.4 bn through QIP, where the part of the money would be utilized to repay debt (Rs2.8 bn) and remaining to part finance its capital equipments. Debt repayment would lower interest cost, which would help in improving the net margins to 5.6% in FY09.

Onshore rigs deployment to ensure steady income – Earlier in our report we had not factored the impact of onshore rigs. One rig, which Simplex had ordered is already deployed and further it has ordered for two more rigs which it plans to deploy at a higher rate of USD 24,000 per day (rate for the first rig was contracted at USD 18,000 per day by end of Q4FY08). This will not only ensure a steady income for the company but also help in improving the margins. In FY09 Simplex would have 4 rigs deployed for its OIL contract. The profitability would be high in the business, with pay back period being a mere 2.5yrs.

Absolute Returns (%)

	1 m	3 m	12 m
Absolute	6.2	52.0	81.0
Rel. to Sensex	1.4	35.6	31.9

Recommended Returns (%)



Old Estimated Financials

(Rs mn)	FY07	FY08E	FY09E
Net sales	17,110	25,327	37,593
Op. profit	1,619	2,547	4,017
Net profit	537	976	1,884
EPS (Rs)	12.5	20.1	36.5
P/E (x)	35.3	21.9	12.0

Financial performance

Y/E, 31 st March (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
Revenues (Rs. mn)	13,446	17,110	25,327	39,550	59,075
Adj PAT (Rs. mn)	416	537	976	2,226	4,451
Adj EPS (Rs.)	9.7	12.5	20.1	40.5	81.0
EPS growth (%)	40.8	29.0	61.1	101.6	99.9
P/E (x)	72.0	55.8	34.7	17.2	8.6
Dividend yield (%)	0.1	0.2	0.4	0.6	0.7
RoCE (%)	17.4	19.7	21.6	26.1	34.4
RoNW (%)	17.9	21.1	21.9	24.2	30.8
P/BV (x)	12.9	10.9	5.5	3.1	2.3
EV/EBITDA (x)	29.2	22.7	16.3	10.4	6.1
EV/sales (x)	2.6	2.2	1.6	1.2	0.8

Source: Company, MF Global PCG Research

Real estate development – Simplex is also focusing on a couple of real estate projects in Ranchi, Kolkatta and Hyderabad. Most of the development is in collaboration, where the partner would bring in the land bank, the civil construction work would be executed by Simplex and it would also get share in the profitability to the extent of its share holding in the venture. In view of all details about these projects not available we have not yet factored the potential upside from this venture in our financial model.

Targeting end-to-end solutions for power plants – In view of the high visibility of capital expenditure in the power sector, the company is aggressively targeting not only the civil for these power projects but also plans to offer other related services in the segment. To provide end-to-end solution to its customers in the power sector, Simplex has completed its umbrella of services for balance of plant business. It has tied up with companies dealing in coal handling, ash handling and cooling towers. This would make it a formidable competitor for larger pie of the contracts and also enable margin expansion.

Valuations

With demand -supply shifting in favour of contractors, Simplex has been selective in picking up new projects. The order book is now getting more inclined towards power and marine infrastructure business, which offer better margins. Simplex seems to be on a fast track with revenues growing at a CAGR of 51% and profit growing at CAGR of 102% for FY07-FY10E. We have revised our earnings estimates for FY09 upward by 18% to Rs2.2bn from Rs1.9bn earlier. With visibility of FY10 coming into picture we have also included FY10 estimates in our model.

The stock is trading at attractive valuations of 17.2x FY09E and 8.6x FY10E earnings estimate of Rs.40.5 and Rs.81 respectively. With increase in ticket size, shift to higher margin projects, improvement in utilization and increase in RoCE to more than 20%, we expect an upward re-rating on the stock. It attractively trades at 10.3x and 6x EV/EBIDTA for FY09E and FY10E respectively. We have revised our price target to Rs1,080 at which it discounts average one-year forward earnings by 18x, indicating a further potential upside of 56%. We thus re-iterate our Buy recommendation.

Financials

Income statement (Rs mn)					Balance sheet (Rs mn)				
	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E
Net sales	17,110	25,327	39,550	59,075	Equity capital	86	97	110	110
Raw material expenses	7,752	11,397	17,639	25,993	Reserves (incl. pref shares)	2,673	6,046	12,159	16,485
Employee expenses	5,046	7,598	11,865	17,723	Networth	2,759	6,143	12,269	16,595
Other exp	2,693	3,784	5,640	7,843	Long term debt	2,829	3,000	2,000	2,300
Op. profit	1,619	2,547	4,405	7,516	Short term debt	4,047	4,800	5,500	5,000
OPM (%)	9.5	10.1	11.1	12.7	Total liabilities	9,635	13,943	19,769	23,895
Other Income	106	63	49	47	Gross fixed assets	4,305	5,283	7,483	8,783
Depreciation	391	527	702	895	Less: Cumulative depn.	914	1,441	2,143	3,038
Interest	632	807	842	851	Net fixed assets	3,391	3,842	5,340	5,745
PBT	702	1,275	2,910	5,818	Capital W.I.P.	228	700	300	550
Taxes	165	300	684	1,367	Investments	53	60	60	60
PAT	537	976	2,226	4,451	Net current assets	5,964	9,341	14,070	17,540
Extraordinary items	-	-	-	-	Total assets	9,635	13,943	19,769	23,895
Adjusted PAT	537	976	2,226	4,451					
NPM (%)	3.1	3.9	5.6	7.5					
Cash flow (Rs mn)					Ratios				
	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E
PBT & extraord. items	702	1,275	2,910	5,818	Growth (%)				
Add: Int, depn. & other exp.	1,023	1,335	1,544	1,746	Net sales	27.2	48.0	56.2	49.4
Cash flow from operations	1,725	2,610	4,454	7,564	Adj PAT	29.0	81.7	128.2	99.9
Net chg in w.cap, tax, int.	2,282	4,149	6,508	5,639	Adj EPS	29.0	61.1	101.6	99.9
Net cash flow from op.	(557)	(1,539)	(2,054)	1,924	Per Share Data (Rs)				
Capital expenditure	1,580	1,450	1,800	1,550	Adj EPS	12.5	20.1	40.5	81.0
Sale / Purchase of inv.	50	7	-	-	Book value	64.1	126.5	223.3	302.0
Net cash from inv.	(1,630)	(1,457)	(1,800)	(1,550)	DPS	1.6	3.0	4.0	5.0
Issue of equity & debt	2,236	3,398	3,700	(200)	Valuation (x)				
Dividend paid	69	58	88	110	P/E	55.8	34.7	17.2	8.6
Net cash from financing	2,167	3,340	3,612	(310)	P/BV	10.9	5.5	3.1	2.3
Net chg in cash	(20)	344	(242)	64	EV/EBIDTA	22.7	16.3	10.4	6.1
Op. cash bal	445	425	769	527	Performance (%)				
Cl. cash bal	425	769	527	591	RoCE	19.7	21.6	26.1	34.4
					RoNW	21.1	21.9	24.2	30.8

BUY : > 20%

HOLD : > 5-20%

SELL : < 5%

Note: Ratings based on expected returns from current market price (on absolute basis).

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Analyst Holding in the recommended stock: **NIL**