

## RESULT UPDATE

### MID CAP

#### Share Data

|                                  |         |
|----------------------------------|---------|
| Reuters code                     | SMCP.BO |
| Bloomberg code                   | SINF IN |
| Market cap. (US\$ mn)            | 548     |
| 6M avg. daily turnover (US\$ mn) | 0.4     |
| Issued shares (mn)               | 50      |
| Target price (Rs)                | 450     |

| Performance (%) | 1M  | 3M  | 12M |
|-----------------|-----|-----|-----|
| Absolute        | (5) | (2) | 277 |
| Relative        | 1   | (4) | 113 |

#### Valuation ratios

| Yr to 31 Mar       | FY10E | FY11E |
|--------------------|-------|-------|
| EPS (Rs)           | 23.3  | 30.0  |
| +/- (%)            | (6.2) | 28.6  |
| PER (x)            | 21.9  | 17.0  |
| PBV (x)            | 2.6   | 2.3   |
| Dividend/Yield (%) | 0.4   | 0.4   |
| EV/Sales (x)       | 0.9   | 0.8   |
| EV/EBITDA (x)      | 9.0   | 7.8   |

#### Major shareholders (%)

|                 |    |
|-----------------|----|
| Promoters       | 55 |
| FII's           | 12 |
| MFs & Fis       | 19 |
| Public & Others | 14 |

#### Financial highlights

| (Rs mn)             | 3QFY09 | 3QFY10 | YoY (%) | 9MFY09 | 9MFY10 | YoY (%) | FY09   | FY10E  | YoY (%) | FY11E  | YoY (%) |
|---------------------|--------|--------|---------|--------|--------|---------|--------|--------|---------|--------|---------|
| Net Sales           | 12,703 | 11,001 | (13.4)  | 32,950 | 32,874 | (0.2)   | 46,333 | 44,888 | (3.1)   | 51,616 | 15.0    |
| EBITDA              | 1,156  | 1,028  | (11.0)  | 3,276  | 3,286  | 0.3     | 4,038  | 4,304  | 6.6     | 5,076  | 17.9    |
| EBITDA Margin (%)   | 9.1    | 9.3    | -       | 9.9    | 10.0   | -       | 8.7    | 9.5    | -       | 9.8    | -       |
| Other Income        | 37     | 42     | 15.0    | 63     | 86     | 35.8    | 526    | 600    | 14.0    | 650    | 8.3     |
| Interest            | 436    | 263    | (39.7)  | 1,035  | 900    | (13.0)  | 1,512  | 1,570  | 3.8     | 1,845  | 17.5    |
| Depreciation        | 370    | 395    | 6.6     | 927    | 1,164  | 25.5    | 1,320  | 1,535  | 16.3    | 1,605  | 4.5     |
| PBT                 | 387    | 413    | 6.8     | 1,318  | 1,308  | (0.7)   | 1,732  | 1,799  | 3.9     | 2,276  | 26.6    |
| Tax                 | 134    | 141    | 5.1     | 401    | 457    | 13.9    | 490    | 608    | 24.2    | 729    | 19.8    |
| PAT                 | 253    | 272    | 7.6     | 917    | 852    | (7.1)   | 1,242  | 1,190  | (4.2)   | 1,547  | 30.0    |
| Minority interest   | 0      | 12     | -       | -      | 26     | -       | 8      | 32     | 320.0   | 58     | 80.0    |
| Adjusted net profit | 253    | 260    | 2.8     | 917    | 826    | (9.9)   | 1,234  | 1,158  | (6.2)   | 1,489  | 28.6    |
| PAT Margin (%)      | 2.0    | 2.5    | -       | 2.8    | 2.6    | (6.9)   | 2.7    | 2.6    | -       | 2.9    | -       |
| EPS (Rs)            | 5.1    | 5.2    | 2.8     | 18.4   | 16.6   | (9.9)   | 24.9   | 23.3   | (6.2)   | 30.0   | 28.6    |

## Simplex Infrastructures Downgrade to Underperformer

Price: Rs 511

BSE Index: 16,358

29 January 2010

### 3QFY10 Result – Order inflow remains a concern

**Simplex Infrastructures' (Simplex) results are much below our expectations. Order inflow and execution remains a concern which resulted in de-growth in the net sales by 13% YoY (stood at Rs 11 bn). Net profit was impacted due to lower sales and stood at Rs 260 mn (2.8% YoY growth). The company has not witnessed growth in its order book in the last few quarters which is impacting the topline growth. With decent opportunities coming up in the road BOT segment, the company is looking at those and is pre-qualified on few of the road projects. Current order book of Rs 106 bn (2.4 x FY10E revenues), does not provide a strong growth visibility. We feel that lower order accretion and delays in execution will keep the earning growth of the company under pressure. We have thus downward revise our earnings estimates by 19% and 16% for FY10E and FY11E, respectively. Valuations are dear at 21.9x FY10E and 17.0x FY11E earnings. Downgrade to Outperformer with a revised target price of Rs 450.**

#### Highlights

- The order book (Rs 106 bn, L1 - Rs 7 bn) constitutes orders from piling (4%), power (28%), marine (4%), industrial (15%), roads & railways (3%), bridges (11%), urban infrastructure (16%) and building & housing (19%).
- The revenue break-up for the quarter is piling (9%), power (23%), marine (8%), industrial (26%), roads & railways (3%), bridges (15%), urban infrastructures (7%) and building & housing (9%).
- Order inflow during the quarter is Rs 12 bn, with buildings & housing being the major contributor (55%).
- The domestic market contributed 78% (74% in 2QFY10) and overseas market contributed 22% (26% in 2QFY10) to the order book.

**Income Statement**

| Yr end 31 Mar (Rs mn)        | FY08          | FY09          | FY10E         | FY11E         |
|------------------------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>             | <b>27,700</b> | <b>46,333</b> | <b>44,888</b> | <b>51,616</b> |
| <i>Growth (%)</i>            | <i>64.5</i>   | <i>67.3</i>   | <i>(3.1)</i>  | <i>15.0</i>   |
| Operating expenses           | (25,065)      | (42,460)      | (40,779)      | (46,736)      |
| Operating profit             | 2,635         | 3,873         | 4,109         | 4,881         |
| Other operating income       | 40            | 165           | 195           | 195           |
| <b>EBITDA</b>                | <b>2,675</b>  | <b>4,038</b>  | <b>4,304</b>  | <b>5,076</b>  |
| <i>Growth (%)</i>            | <i>65.2</i>   | <i>51.0</i>   | <i>6.6</i>    | <i>17.9</i>   |
| Depreciation                 | (643)         | (1,320)       | (1,535)       | (1,605)       |
| Other income                 | 328           | 526           | 600           | 650           |
| <b>EBIT</b>                  | <b>2,360</b>  | <b>3,244</b>  | <b>3,369</b>  | <b>4,121</b>  |
| Interest paid                | (1,088)       | (1,512)       | (1,570)       | (1,845)       |
| Pre-tax profit               | 1,273         | 1,732         | 1,799         | 2,276         |
| (before non-recurring items) |               |               |               |               |
| Pre-tax profit               | 1,273         | 1,732         | 1,799         | 2,276         |
| (after non-recurring items)  |               |               |               |               |
| Tax (current + deferred)     | (370)         | (490)         | (608)         | (729)         |
| <b>Net profit</b>            | <b>903</b>    | <b>1,242</b>  | <b>1,190</b>  | <b>1,547</b>  |
| <b>Adjusted net profit</b>   | <b>903</b>    | <b>1,234</b>  | <b>1,158</b>  | <b>1,489</b>  |
| <i>Growth (%)</i>            | <i>68.1</i>   | <i>36.7</i>   | <i>(6.2)</i>  | <i>28.6</i>   |
| Minority interests           | –             | (8)           | (32)          | (58)          |
| <b>Net income</b>            | <b>903</b>    | <b>1,234</b>  | <b>1,158</b>  | <b>1,489</b>  |

**Balance Sheet**

| Yr end 31 Mar (Rs mn)                 | FY08          | FY09          | FY10E         | FY11E         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Current assets                        | 21,143        | 29,456        | 32,869        | 37,902        |
| Investments                           | 99            | 21            | 21            | 21            |
| Net fixed assets                      | 6,537         | 10,249        | 10,846        | 11,085        |
| <b>Total assets</b>                   | <b>27,779</b> | <b>39,726</b> | <b>43,737</b> | <b>49,008</b> |
| Current liabilities                   | 12,383        | 17,840        | 18,837        | 21,219        |
| Total Debt                            | 7,493         | 12,205        | 14,900        | 16,300        |
| Other non-current liabilities         | 371           | 579           | 371           | 372           |
| <b>Total liabilities</b>              | <b>20,248</b> | <b>30,624</b> | <b>34,108</b> | <b>37,891</b> |
| Share capital                         | 99            | 99            | 99            | 99            |
| Reserves & surplus                    | 7,432         | 8,989         | 9,508         | 10,985        |
| Shareholders' funds                   | 7,531         | 9,088         | 9,608         | 11,084        |
| <b>Minorities interests</b>           | <b>–</b>      | <b>14</b>     | <b>21</b>     | <b>32</b>     |
| <b>Total equity &amp; liabilities</b> | <b>27,779</b> | <b>39,726</b> | <b>43,737</b> | <b>49,008</b> |

**Cash Flow Statement**

| Yr end 31 Mar (Rs mn)           | FY08           | FY09           | FY10E          | FY11E          |
|---------------------------------|----------------|----------------|----------------|----------------|
| Pre-tax profit                  | 1,273          | 1,732          | 1,799          | 2,276          |
| Depreciation                    | 358            | 811            | 1,194          | 1,192          |
| Chg in working capital          | (1,813)        | (2,901)        | (1,881)        | (2,483)        |
| Total tax paid                  | (179)          | (280)          | (819)          | (728)          |
| <b>Cash flow from oper. (a)</b> | <b>(362)</b>   | <b>(637)</b>   | <b>293</b>     | <b>257</b>     |
| Capital expenditure             | (3,276)        | (4,523)        | (1,791)        | (1,430)        |
| Chg in investments              | (46)           | 78             | 0              | –              |
| <b>Cash flow from inv. (b)</b>  | <b>(3,322)</b> | <b>(4,446)</b> | <b>(1,792)</b> | <b>(1,430)</b> |
| <b>Free cash flow (a+b)</b>     | <b>(3,684)</b> | <b>(5,083)</b> | <b>(1,499)</b> | <b>(1,173)</b> |
| Equity raised/(repaid)          | 3,948          | –              | –              | –              |
| Chg in minorities               | –              | 7              | (25)           | (47)           |
| Debt raised/(repaid)            | 617            | 4,711          | 2,695          | 1,400          |
| Dividend (incl. tax)            | (110)          | (116)          | (117)          | (113)          |
| Other financing activities      | 37             | 439            | (525)          | 101            |
| <b>Cash flow from fin. (c)</b>  | <b>4,492</b>   | <b>5,041</b>   | <b>2,028</b>   | <b>1,340</b>   |
| <b>Net chg in cash (a+b+c)</b>  | <b>807</b>     | <b>(41)</b>    | <b>529</b>     | <b>168</b>     |

**Key Ratios**

| Yr end 31 Mar (%) | FY08 | FY09  | FY10E | FY11E |
|-------------------|------|-------|-------|-------|
| EPS (Rs)          | 18.2 | 24.9  | 23.3  | 30.0  |
| EPS growth        | 45.7 | 36.7  | (6.2) | 28.6  |
| EBITDA margin     | 9.6  | 8.7   | 9.5   | 9.8   |
| EBIT margin       | 8.5  | 7.0   | 7.5   | 8.0   |
| RoCE              | 18.7 | 17.4  | 14.4  | 15.6  |
| Net debt/Equity   | 83.1 | 121.0 | 136.9 | 129.7 |

**Valuations**

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|-------------------|------|------|-------|-------|
| PER               | 28.1 | 20.6 | 21.9  | 17.0  |
| PCE               | 16.4 | 9.9  | 9.4   | 8.2   |
| Price/Book        | 3.4  | 2.8  | 2.6   | 2.3   |
| Yield (%)         | 0.4  | 0.4  | 0.4   | 0.4   |
| EV/Net sales      | 1.1  | 0.8  | 0.9   | 0.8   |
| EV/EBITDA         | 11.8 | 9.0  | 9.0   | 7.8   |

**Du Pont Analysis – ROE**

| Yr end 31 Mar (x)    | FY08 | FY09 | FY10E | FY11E |
|----------------------|------|------|-------|-------|
| Net margin (%)       | 3.3  | 2.7  | 2.6   | 2.9   |
| Asset turnover       | 1.2  | 1.4  | 1.1   | 1.1   |
| Leverage factor      | 4.4  | 4.1  | 4.5   | 4.5   |
| Return on equity (%) | 17.5 | 14.8 | 12.4  | 14.4  |

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**Analyst Declaration:** I, Vikash Verma, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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