



## Simplex Infrastructures

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,962	SINF IN
	REUTERS CODE
S&P CNX: 3,897	SINF.BO

1 July 2008

Buy

Previous Recommendation: Buy

Rs433

Equity Shares (m)	55.0
52-Week Range	790/330
1,6,12 Rel. Perf. (%)	-2/3/26
M.Cap. (Rs b)	23.8
M.Cap. (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	17,110	537	12.5	28.9	34.7	6.8	19.5	15.9	1.3	13.7
3/08E	28,121	902	16.4	31.6	26.4	3.0	12.9	17.9	0.8	8.5
3/09E	41,049	1,740	31.7	92.9	13.7	2.1	15.1	20.1	0.6	5.3
3/10E	55,266	2,783	50.6	60.0	8.5	1.7	19.8	23.5	0.4	3.8

- FY08 performance below estimates due to one-offs:** During FY08, Simplex reported revenues at Rs28.1b (+64.4% YoY), EBITDA at Rs2.7b (+82.7% YoY) and net profit of Rs901m (+67.7% YoY). While revenues were above our estimates of Rs27b, EBITDA is marginally lower than our estimates of Rs2.8b, due to one-off adjustments of Rs169m for visa payments (Rs59m) and write-offs of historical claims (Rs110m). Adjusted net profit at Rs1.0b is in line with estimates. Simplex did not provide for Rs72.5m as mark to market losses on hedging transaction, which now has been capped at Rs85m through another option, and the transaction will expire in Sept 08.
- Adjusted EBITDA margins in line with estimates:** Adjusted for the one-off items, EBITDA margin during FY08 stands at 11%, in line with estimates. During FY08, export EBIT stood at 9.6%, vs. 0.3% during FY07, as Qatar operations have stabilized. During FY09, we expect stabilization for Dubai and Oman operations as well.
- Robust order book at Rs100b:** Order book as at Mar 08 stands at Rs100b (+88% YoY), book to bill ratio of 3.6x FY08 revenues. Order book break: Piling 6%, Power 18%, Marine 9%, Industrial 17%, Transportation 19%, urban utilities 14% and buildings/ housing 17%. It has ~15% of order book on fixed price basis (including large portion of 3-4month execution piling), and thus the impact of commodity price increase is likely to be limited.
- Valuation and view:** The stock is trading at PER of 13.7x FY09E and 8.5x FY10E. We have downgraded earnings for FY09 to Rs1.7b (down 20.7%) and FY10 to Rs2.8b (down 15.7%) due to increase interest cost, higher depreciation and increased tax rate. We arrive at SOTP based target of Rs721/sh, (core business: Rs 658/sh (14x FY10) and others 16/sh. Maintain **Buy**.

### QUARTERLY PERFORMANCE

Y/E MARCH	FY07				FY08				FY07	FY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Income</b>	<b>3,520</b>	<b>3,563</b>	<b>4,257</b>	<b>5,770</b>	<b>5,818</b>	<b>5,711</b>	<b>7,040</b>	<b>9,552</b>	<b>17,110</b>	<b>28,121</b>
Change %	13.1	29.8	13.6	45.6	65.3	60.3	65.4	65.5	26.1	64.4
Total Expenses	3,203	3,232	3,804	5,251	5,236	5,139	6,334	8,737	15,491	25,446
<b>EBITDA</b>	<b>317</b>	<b>331</b>	<b>452</b>	<b>519</b>	<b>582</b>	<b>572</b>	<b>705</b>	<b>815</b>	<b>1,619</b>	<b>2,675</b>
Change %	22.4	39.0	67.2	55.5	83.9	73.0	55.9	57.1	47.0	65.2
As % of sales	9.3	9.6	11.4	9.9	10.8	11.1	10.6	9.6	10.1	10.4
Other Income	11	12	33	50	44	63	41	98	106	246
Interest	121	148	160	202	247	251	296	214	632	1,007
Depreciation	86	94	104	107	127	142	167	206	391	643
<b>PBT</b>	<b>121</b>	<b>100</b>	<b>221</b>	<b>261</b>	<b>252</b>	<b>242</b>	<b>283</b>	<b>493</b>	<b>702</b>	<b>1,271</b>
As % of sales	3.4	2.8	5.2	4.5	4.3	4.2	4.0	5.2	4.1	4.5
Change %	(22.3)	(2.1)	57.5	35.9	109.1	143.0	28.4	89.1	19.2	81.1
Tax	16	29	48	71	56	52	63	199	164	370
Tax/PBT	13.5	29.1	21.7	27.3	22.2	21.5	22.3	40.3	23.4	29.1
PAT	104	71	173	189	196	190	220	295	537	901
<b>Adjusted PAT</b>	<b>104</b>	<b>71</b>	<b>173</b>	<b>189</b>	<b>196</b>	<b>190</b>	<b>220</b>	<b>295</b>	<b>537</b>	<b>901</b>
As % of sales	3.0	2.0	4.1	3.3	3.4	3.3	3.1	3.1	3.1	3.2
Change %	(10.3)	(21.2)	57.2	78.2	88.1	169.1	27.4	55.5	27.3	67.7

E: MOST Estimates

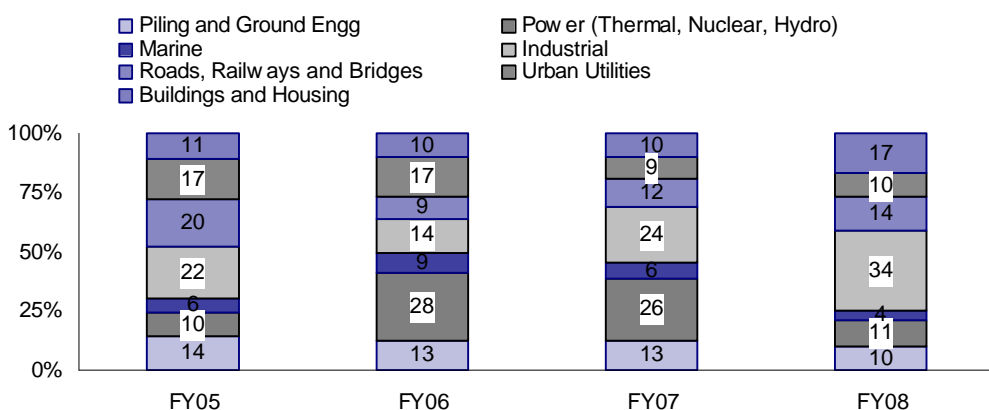
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**FY08 performance below estimates due to one-offs**

During FY08, Simplex reported revenues at Rs28.1b (+64.4% YoY), EBITDA at Rs2.7b (+82.7% YoY) and net profit of Rs901m (+67.7% YoY). While revenues were above our estimates of Rs27b, EBITDA is marginally lower than our estimates of Rs2.8b, as 4QFY08 EBITDA has been impacted due to one-off adjustments of Rs169m for visa payments (Rs59m) and write-offs of historical claims (Rs110m). Adjusted net profit at Rs1.0b is in line with estimates. During 4QFY08, revenues stand at Rs9.6b (+65.5% YoY), EBITDA at Rs815m (+121.5% YoY) and net profit at Rs295m (+55.5% YoY). The company did not provide for Rs72.5m as mark to market losses on hedging transaction. The management stated that the hedging was in Swiss Francs with objective of reducing the cost of borrowings, and the company has now capped the losses at Rs85m, by buying another option. The transaction will expire in Sept 08.

SEGMENTAL TREND (%)



GEOGRAPHICAL TREND (RS M)

REVENUES	FY08	FY07	4QFY08	4QFY07
Domestic	7,825	4866.4	23,370	14,602
Foreign	1,664	638.5	4751	2,508
<b>EBIT</b>				
Domestic	637	486	2,107	1,531
Foreign	150	-99	454	7.0
<b>EBIT (%)</b>				
Domestic	8.1	10.0	9.0	10.5
Foreign	9.0	-15.5	9.6	0.3

Source: Company/Motilal Oswal Securities

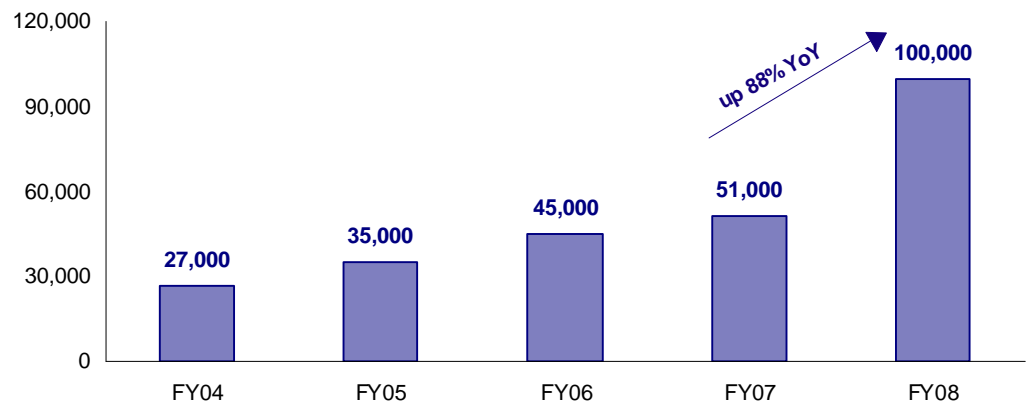
EBIT margin from international business has improved to 9% in FY08, vs. 0.3% in FY07, indicating that Qatar operations have stabilized

**Order book up 88% YoY, best among peers**

Order book as at Mar 08 stands at Rs100b (+88% YoY), book to bill ratio of 3.6x FY08 revenues. The current order book comprises of 27% of orders from overseas markets. The order book break up as at Mar 08 is, Piling 6%, Power 18%, Marine 9%, Industrial 17%, Transportation 19%, urban utilities 14% and buildings and housing 17%.

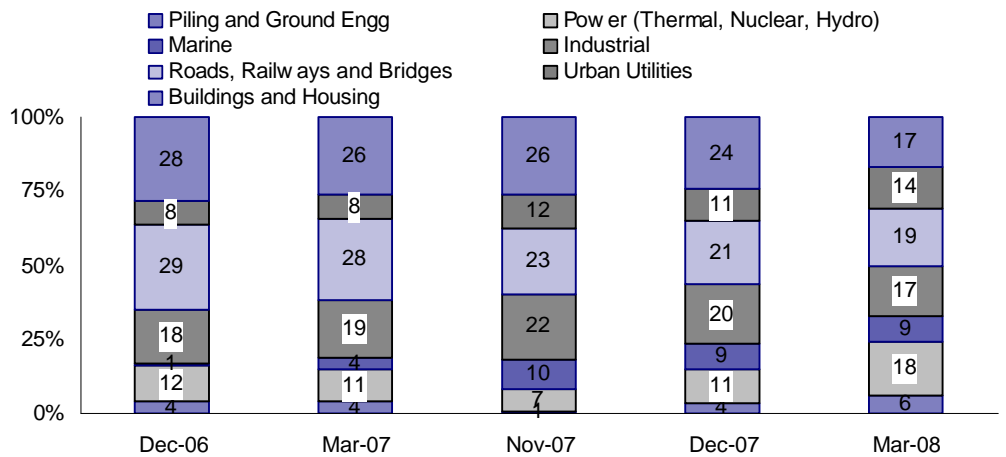
In the current order book, the fixed price contracts are at ~10% in the domestic business and ~25% in the international order book. Based on this, ~15% of total order book is on fixed price basis, and thus the impact of steel, bitumen price increase is likely to be limited on the existing order book. Also, a large of the fixed price contract in domestic order book pertains to piling projects, where the execution period is 3-4 months. Further, private sector accounts for ~70% of the order book, where the cost pass through mechanisms are better than government contracts. During FY08, Middle East operations accounted for 17% of the revenues and target is to increase contribution to 20%+ during FY09.

ORDER BOOK TREND (RS M)



SEGMENTAL TREND IN ORDER BOOK (%)

Proportion of relatively higher margin segments like piling, power and urban utilities have increased



Source: Company

ORDER BOOK GROWTH (%) – BEST AMONG THE PEERS

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	YOY (%)
Gammon	74,000	80,000	75,000	75,000	80,000	78,000	75,000	75,000	0.0
HCC	91,430	98,170	96,040	93,120	93,810	96,020	90,530	101,580	9.1
IVRCL	66,866	66,372	72,200	81,000	95,000	96,000	110,000	128,000	58.0
L&T	286,520	306,760	357,100	368,820	368,820	440,290	496,000	530,000	43.7
NCC	62,700	66,917	70,250	73,020	77,710	90,040	97,500	113,800	55.8
Patel	43,000	50,000	47,651	50,000	50,000	54,000	55,000	60,000	20.0
<b>Simplex Infra.</b>	<b>45,900</b>	<b>52,000</b>	<b>42,960</b>	<b>53,200</b>	<b>70,000</b>	<b>70,770</b>	<b>89,000</b>	<b>100,120</b>	<b>88.0</b>

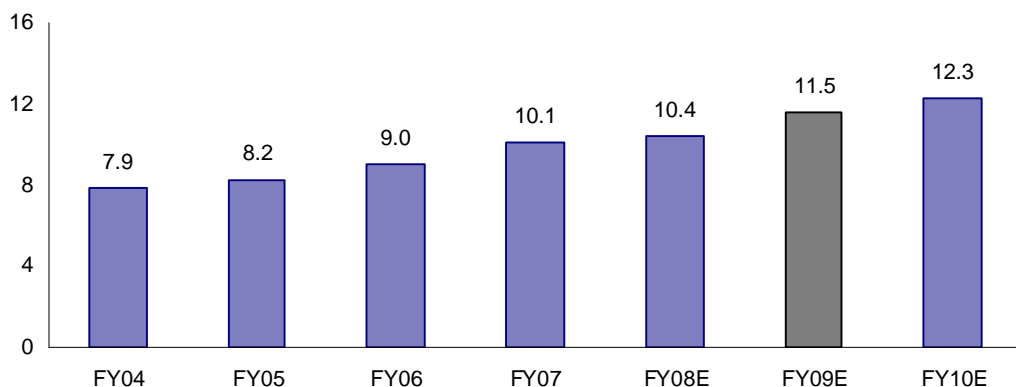
Source: Industry/Motilal Oswal Securities

### Adjusted EBITDA margins in line with estimates

During FY08, Simplex reported EBITDA margins at 10.4 % (+30bp YoY). Reported margins have been impacted due to (1) Write offs of Rs110m from debtors (old claims against clients) and (2) One time visa payment of Rs90m for the setting up operations in Dubai during 4QFY08. Adjusted for the one-off items, EBITDA margin during FY08 stands at 11%, in line with estimates. During FY08, export EBIT stood at 9.6%, vs. 0.3% during FY08, as Qatar operations have stabilized. Going forward, the management expects export margins to further improve, as new geographies like Dubai and Oman, also achieve stabilization in operations. Working capital improved to 105 days in FY08, vs 120 days in FY07.

EBITDA margin for Simplex has improved to 10.4% in FY08 from 10.1% in FY06. We expect EBITDA margins to improve since, (1) the order book proportion of the road projects (with lower margin of 8%-10%) has declined to 3% and (2) segments like power, industrial structures, marine and power have seen the order intake at higher EBITDA margins of ~12-15% and (3) With the strong order book, the company has more flexibility to select its projects based upon profitability. We expect EBITDA to improve to 12.3% in FY10, +130bp from adjusted EBITDA margins of 11% in FY08.

EBITDA TREND (%)

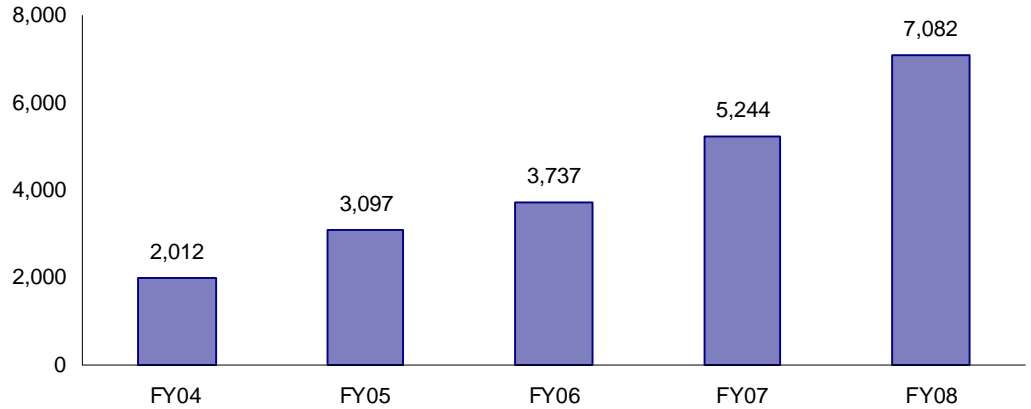


Source: Company

### Execution remains the focus - Capex and Manpower addition to ensure faster execution

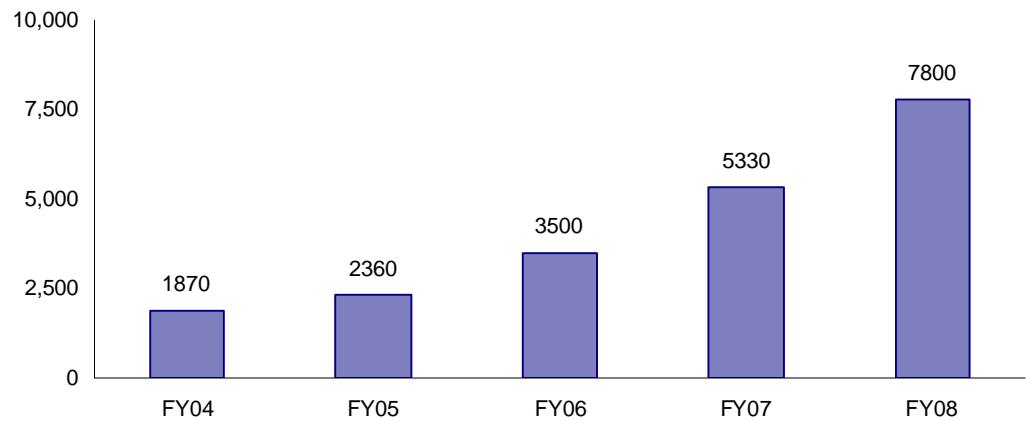
During FY08, capex spending stood at Rs4b, and targeted spending during FY09 and FY10 stands at Rs2b pa. Of this, capex on international operations will be Rs1b pa. The company uses ~90% of in-house equipments, thus giving a better control over resource management, in turn ensuring faster execution. Simplex has also focused on manpower addition, management and training. Employee strength of the company during FY08 stands at 7082 (+35%YoY), which has almost doubled during FY06-FY08. The management indicated that with a gross block of Rs9.4b and employee base of 7082, the company has capability to execute order book of Rs150b (current order book of Rs100b).

EMPLOYEE ADDITION (NOS)



Employee strength has almost been doubled since FY06 and is 3.5x as that of FY04

GROSS FIXED ASSETS (RS M)



Fixed assets have more than doubled during FY06-FY08. Simplex uses ~90% of in-house equipments

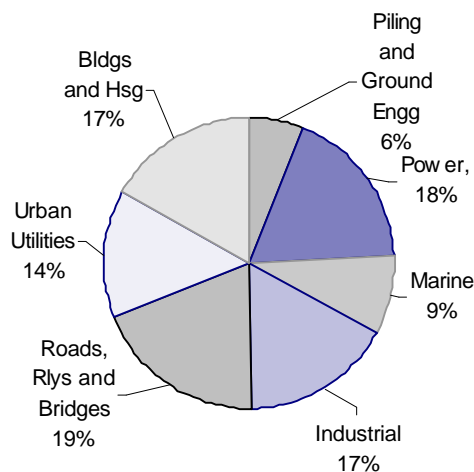
Source: Company/Motilal Oswal Securities

**Diversified presence – to help in maintaining the medium term growth momentum**

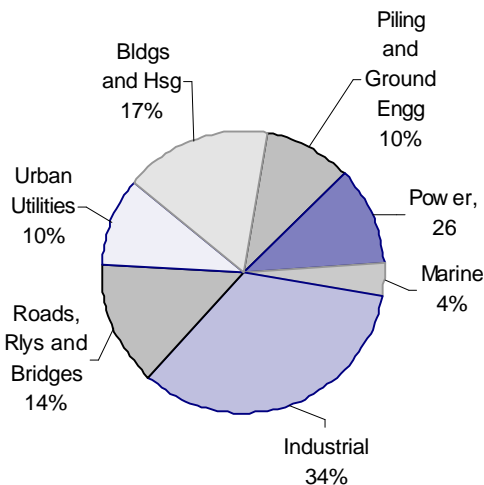
Simplex is levered to all the three drivers of the Indian growth storey viz. infrastructure investments, industrial capex and consumer demand. Simplex also derives ~30% of its order book from foreign markets including Middle East, South Asia etc, thus helping in reducing dependence on Indian market. Segmental and Geographical diversification, we believe will help the company in delivering secular growth in the medium term and developing expertise/pre-qualifications in newer segments and markets.

**Infrastructure investments:** XIth five year plan envisages an investment of \$500b in the different segments of infrastructure. We expect Simplex to be a major beneficiary through its presence in power, urban utilities, railways, roads and bridges, marine work etc. Simplex derives ~60% (Mar 08) of its order book from divisions which cater to the infrastructure segment.

DIVERSIFIED ORDER BOOK (MAR-08, %)



REVENUE COMPOSITION (MAR-08, %)



Source: Company/Motilal Oswal Securities

**Industrial Capex:** Industrial structures division caters to the industry and contributes 17% (Mar 08) to the order book and is likely to continue given the proposed investments in the sectors like mining, metals and minerals oil and gas etc.

**Consumer demand:** Through the commercial and residential buildings and piling segment it caters to the growing need of commercial and residential real estate development. Simplex has strong client base including names like Unitech and Sheth developers. As on Mar 08, Buildings contributes 17% to the order book and piling contributes 6% (due to smaller execution cycle) to the order book.

**Valuation and view**

At CMP of Rs433/sh, the stock is trading at PER of 13.7x FY09E and 8.5x FY10E. We have downgraded earnings for FY09 to Rs 1.7b (down 20.7%) and FY10 to Rs 2.8b (down 15.7%) due to (1) Increase interest cost, (2) Higher depreciation and (3) Increased tax rate. We arrive at SOTP based target of Rs721/sh, comprising of Core Business: Rs 658/sh (14x FY10) and others 16/sh. **Maintain Buy.**

SIMPLEX: SUM OF THE PARTS VALUATION

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
Simplex Standalone	Construction	FY10E PER (x)	14	38,964	709	At par with industry average
Jharkhand	Real Estate	NPV, CoE: 15%		484	9	50% discount to NAV, in line with peers
Oil Rigs Business	Rigs operations	FY09E PER (x)	10	189	3	FY09 first full year of operation, P/E of 10x as annuity business
<b>Total</b>				<b>39,637</b>	<b>721</b>	

Source: Motilal Oswal Securities

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2007	2008	2009E	2010E	
<b>Net Sales</b>	<b>17,110</b>	<b>28,121</b>	<b>41,049</b>	<b>55,266</b>	
Change (%)	27.2	64.4	46.0	34.6	
Materials Consumed	14,676	25,446	35,097	46,811	
Other Administrative Expenses	815	0	1,560	2,072	
<b>EBITDA</b>	<b>1,619</b>	<b>2,675</b>	<b>4,392</b>	<b>6,383</b>	
% of Net Sales	9.5	9.5	10.7	11.6	
Depreciation	391	643	935	1,139	
Interest	632	1,007	1,170	1,430	
Other Income	106	246	344	396	
<b>PBT</b>	<b>702</b>	<b>1,271</b>	<b>2,632</b>	<b>4,210</b>	
Tax	164	369	892	1,427	
Rate (%)	23.4	29.0	33.9	33.9	
<b>Reported PAT</b>	<b>537</b>	<b>902</b>	<b>1,740</b>	<b>2,783</b>	
<b>Adjusted PAT</b>	<b>537</b>	<b>902</b>	<b>1,740</b>	<b>2,783</b>	
Change (%)	28.9	67.9	92.9	60.0	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2007	2008	2009E	2010E	
Share Capital	86	110	110	110	
Reserves	2,673	7,824	11,389	13,933	
<b>Net Worth</b>	<b>2,759</b>	<b>7,934</b>	<b>11,499</b>	<b>14,043</b>	
Loans	6,877	7,500	10,500	11,500	
Deffered Tax Liability	181	181	181	181	
<b>Capital Employed</b>	<b>9,816</b>	<b>15,615</b>	<b>22,180</b>	<b>25,724</b>	
Gross Fixed Assets	4,305	9,400	11,400	13,400	
Less: Depreciation	914	1,557	2,492	3,631	
<b>Net Fixed Assets</b>	<b>3,391</b>	<b>7,843</b>	<b>8,908</b>	<b>9,769</b>	
Capital WIP	228	427	228	228	
Investments	52	102	102	102	
<b>Curr. Assets</b>	<b>13,955</b>	<b>19,607</b>	<b>30,430</b>	<b>39,048</b>	
Inventory	2,852	2,774	3,936	4,997	
Debtors	8,563	12,712	18,556	24,226	
Cash & Bank Balance	425	655	2,876	3,012	
Loans & Advances	1,707	2,697	3,936	5,300	
Other Current Assets	408	770	1,125	1,514	
<b>Current Liab. &amp; Prov.</b>	<b>7,810</b>	<b>12,365</b>	<b>17,488</b>	<b>23,424</b>	
Creditors	7,729	12,365	17,488	23,424	
Provisions	80	0	0	0	
<b>Net Current Assets</b>	<b>6,145</b>	<b>7,243</b>	<b>12,942</b>	<b>15,624</b>	
Misc. Expenses	0	0	0	0	
<b>Application of Funds</b>	<b>9,817</b>	<b>15,615</b>	<b>22,180</b>	<b>25,724</b>	

E: M0St Estimates

RATIOS					
Y/E MARCH	2007	2008	2009E	2010E	
<b>Basic (Rs)</b>					
<b>Adjusted EPS</b>	<b>12.5</b>	<b>16.4</b>	<b>31.7</b>	<b>50.6</b>	
Growth (%)	28.9	31.6	92.9	60.0	
Cash EPS	41.0	53.4	94.6	146.0	
Book Value	64.1	144.3	209.2	255.5	
DPS	1.0	1.6	3.2	5.1	
Payout (incl. Div. Tax.)	8.0	10.0	10.0	10.0	
<b>Valuation (x)</b>					
P/E (standalone)	34.7	26.4	13.7	8.5	
Cash P/E	10.6	8.1	4.6	3.0	
EV/EBITDA	13.7	8.5	5.3	3.8	
EV/Sales	1.3	0.8	0.6	0.4	
Price/Book Value	6.8	3.0	2.1	1.7	
Dividend Yield (%)	0.2	0.4	0.7	1.2	
<b>Profitability Ratios (%)</b>					
RoE	19.5	12.9	15.1	19.8	
RoCE	15.9	17.9	20.1	23.5	
<b>Turnover Ratios</b>					
Debtors (Days)	183	165	165	160	
Inventory (Days)	37	36	35	33	
Creditors. (Days)	103	100	100	100	
Asset Turnover (x)	2.0	2.2	2.2	2.3	
<b>Leverage Ratio</b>					
Debt/Equity (x)	2.5	0.9	0.9	0.8	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2007	2008	2009E	2010E	
PBT before Extraordinary Items	<b>701</b>	<b>1,271</b>	<b>2,632</b>	<b>4,210</b>	
Add : Depreciation	391	643	935	1,139	
Interest	632	1,007	1,170	1,430	
Less : Direct Taxes Paid	164	369	892	1,427	
(Inc)/Dec in WC	-1,532	-868	-3,477	-2,547	
<b>CF from Operations</b>	<b>29</b>	<b>1,515</b>	<b>367</b>	<b>2,805</b>	
(Inc)/Dec in FA	-1,740	-5,294	-1,801	-2,000	
(Pur)/Sale of Investments	-49	-50	0	0	
<b>CF from Investments</b>	<b>-1,789</b>	<b>-5,344</b>	<b>-1,801</b>	<b>-2,000</b>	
(Inc)/Dec in Netw orth	28	4,256	2,024	78	
(Inc)/Dec in Debt	2,425	623	3,000	1,000	
Less : Interest Paid	632	1,007	1,170	1,430	
Dividend Paid	80	103	198	317	
<b>CF from Fin. Activity</b>	<b>1,741</b>	<b>3,769</b>	<b>3,655</b>	<b>-669</b>	
<b>Inc/Dec of Cash</b>	<b>-20</b>	<b>-60</b>	<b>2,222</b>	<b>135</b>	
Add: Beginning Balance	445	425	655	2,876	
<b>Closing Balance</b>	<b>425</b>	<b>365</b>	<b>2,876</b>	<b>3,012</b>	



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#### Simplex Infrastructure

- |   |     |
|---|-----|
| 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 | Yes |

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