WALLFORT
Financial Services Ltd.

Simplex Infrastructures Ltd

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Initiating Coverage

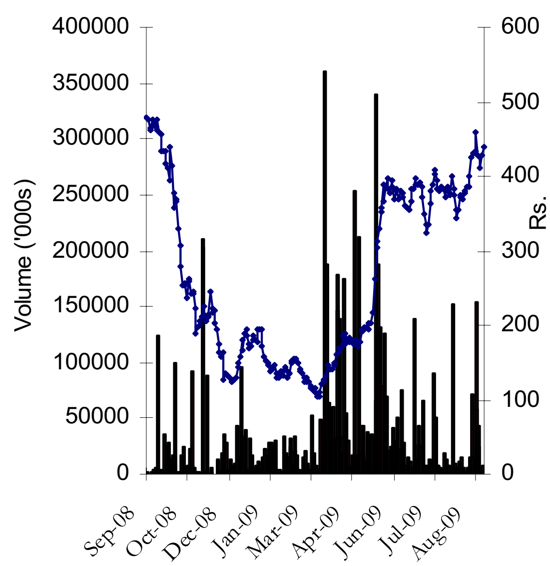
WALLFORT
Financial Services Ltd.

September 2009

Sector: Construction	Recommendation: Buy
CMP: Rs.439	Target: Rs.535

MARKET DATA	
CMP	439
EPS (TTM)	22.43
P/E	19.57
52 Week High	487
52 Week Low	102
Equity (Rs. mn)	99.33
Mkt. Capitalization(Rs. mn)	21802.94
CODES	
BSE	523838
Bloomberg	SINF@IN
NSE	SIMPLEXINF

Fig: Price Volume Graph



Source: NSE

Background

- **Simplex Infrastructures Limited (SIL)** is one of the most exciting global companies engaged in significant industrial and public infrastructure development, the oldest company was incorporated on 19th December 1924 under the control of H.P. Lancaster of the United Kingdom, and later the company was taken over by the Kolkata-based Mundhra family after the Indian independence.
- SIL provides the services in the areas of Ground Engineering, Power, Industrial, Urban Utilities, Building & Houses, Roads, Railways, Bridges and Marine. The Company has diversified geographical presence across India and overseas also.
- An ISO 9001:2000 certification was handed over to the company in 2004 and in 2005, the company had changed its name from Simplex Concrete Piles (India) Limited to Simplex Infrastructures Limited for a more holistic representation of the company.
- Over the years, **SIL has successfully executed over 2,200 projects earning a reputation for efficient project management & execution skills.** The company's strong infrastructural grounding is reflected in its track record of having been **associated with over 80% of India's power projects, 15 steel plants, 24 petrochemical/chemical plants and over 100 bridges, roads and railway projects.**
- SIL reported a 37.01 % rise in net profit at Rs 1234 mn for the year ended March 31, 2009, compared to Rs 900 mn in the previous year. The company's year-on-year turnover surged to 68.63 % to Rs 47420 mn in FY09 against Rs 28120 mn in the previous year.
- At the CMP of Rs.439, SIL is trading at a P/E of 12.20x and EV/EBIDTA of 7.2x of its FY10 earnings estimates. Hence, **we initiate coverage on the stock with a 'BUY' recommendation with a target price of Rs.535 with a twelve month perspective and with an upside of 22%.**

Key Highlights

(Rs. mn)

Year end	FY08	FY09	FY10 E	FY11 E
Net Sales	28120.90	47420.60	54533.69	62713.74
EBIDTA	2920.47	4532.10	5553.37	6528.16
Net Profit	900.80	1234.20	1771.62	2312.48
EPS (Rs.)	20.15	24.95	35.67	46.55
EBDITA Margin	10.39%	9.56%	10.18%	10.41%
Net Profit Margin	3.20%	2.60%	3.25%	3.69%

Source: Company, Wallfort Research

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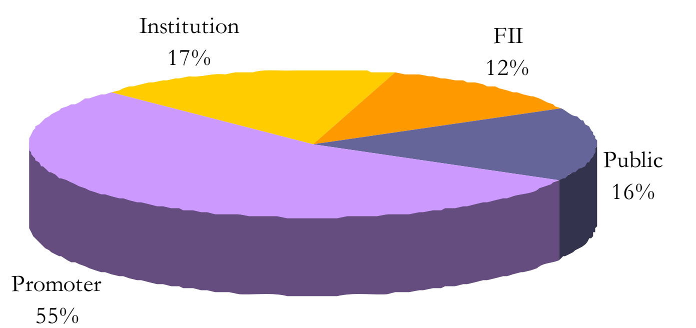
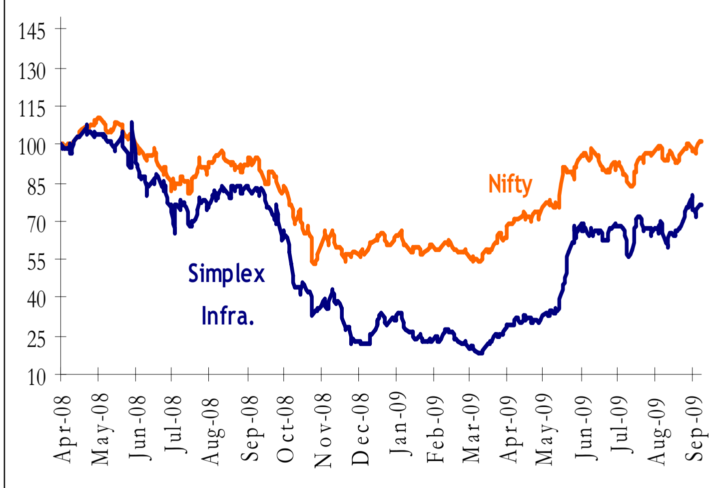
Fig: Shareholding pattern



Source: BSE

Fig: Relative Performance



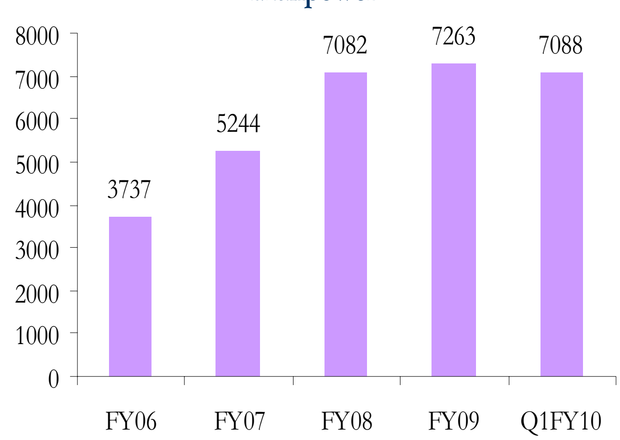
Source: NSE

Investment Rationale

Strong Execution Capabilities

Simplex Infrastructures Ltd. (SIL) is a Kolkata - based leading infrastructure & construction player having **an experience of eight decades in executing mega-sized projects across India & having a long time presence in Middle East.** Its services offerings include design, E&C using RCC and steel, fittings & furnishing work on structures; electro-mechanical fit outs, piling foundations, ground engineering & earth work. It offers these services across 9 different segments and has a proven expertise in piling, construction of industrial projects and thermal power projects. Managing such a large number of projects and contracts requires significant execution expertise and capabilities, which the company has been able to build gradually since its inception in 1924.

Manpower



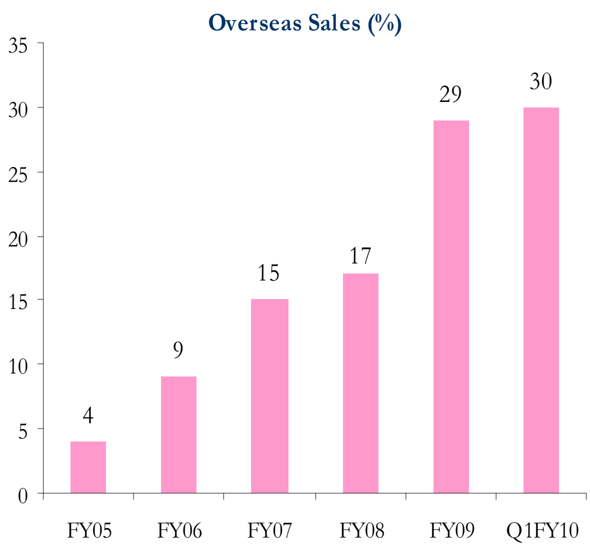
Source: Company, Wallfort research

Strong Project Management

SIL boasts of an extensive track record of serving as the country's leading EPC contractor for over eight decades. It enjoys a strong showcase of project reference, having successfully executed over 2,200 projects in India and abroad. **The company is currently managing 150 projects across various site locations, depicting its vast execution & resource mobilization capabilities.** The same is being facilitated by its experienced & dedicated workforce of 7088 permanent employees (81.3% technically qualified).

Strong and diversified order backlog provides a revenue visibility of about 2 years

SIL's current order book stands at Rs.110bn including orders under L1 status of Rs.7bn across segments of infrastructure space with over 150 project locations in India and overseas. Order Inflow for the Q1FY10 was Rs.20bn. Order book to Sales ratio is 2.01x of FY10E, which gives visibility for the company's revenue for next 2 years. The company has diversified geographical presence across India and overseas. Overseas operation accounts for 23% of order book and 30% of revenue for Q1FY10.



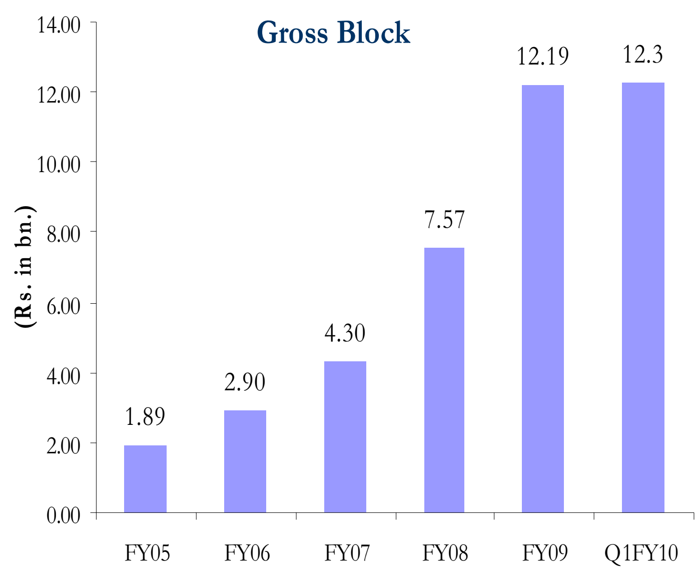
Source: Company, Wallfort research

Middle East Opportunities

Apart from excellent growth potential in India, Simplex's presence in the oil-rich Oman, UAE and Qatar areas of Middle East has lent more impetus to the business growth. With the surplus of oil money getting invested in creating the physical assets in the Middle East, the demand for construction will be even more pronounced. Simplex is in a position to capitalise on the opportunities by expanding the business in existing as well as the new territories of that region. Simplex has received an Order in Oman for construction of 6 flyovers worth Rs. 302 crores. Since the commencement of its operations in Qatar in 2003 and UAE in 2004, SIL has been continuously receiving a substantial chunk of its revenues from these regions. These new territories will further mature in due course with more opportunities unfolding, in the Oil-rich Middle East region.

Ownership of Modern Equipments

SIL has consistently focused on investing & owning a large fleet of modern machinery & equipments to meet its growing project requirements. The company's gross block position has leaped by more than six folds over the past four years (Q1FY10 Gross Block at Rs12.3bn). SIL has invested in world-class equipments and owns 90% of plant and equipment. Maintaining a large equipment base has not only enabled SIL to timely serve multi location site requirements, but also induced operational efficiencies & a leeway of bidding for additional tenders. The company has incurred a capex of Rs 425 cr in FY09 and plans to further incur a capex of around Rs 100 cr in FY10.



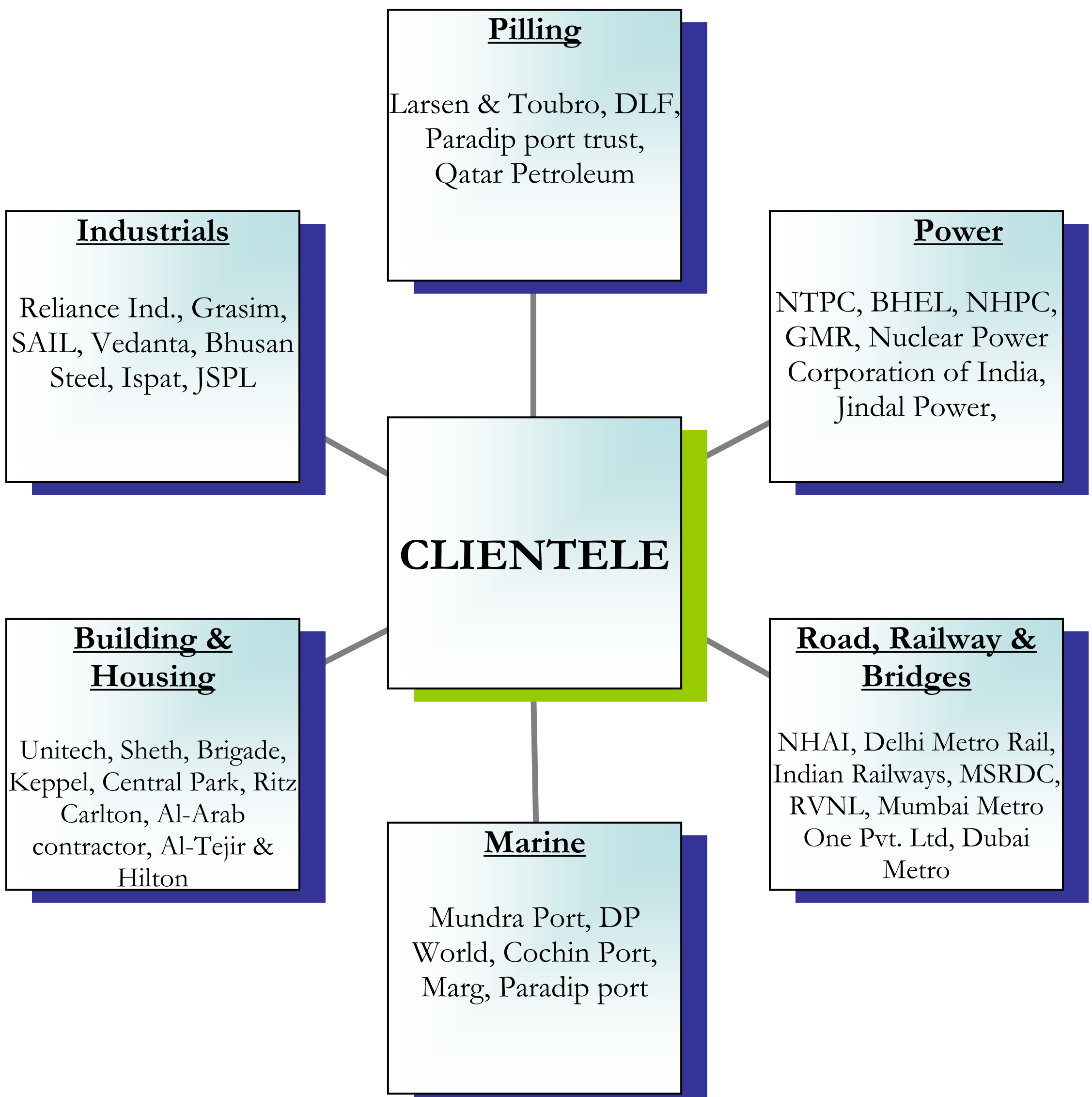
Source: Company, Wallfort research

Increased government focus

Allocation for Jawahar Lal Nehru National Urban Renewal Mission is increased to Rs 129bn for 2009-10 as against Rs 69bn for 2008-09 while allocation for Accelerated Irrigation Benefit Programme is increased to Rs 350bn in 2009-10 from Rs 200bn for 2008-09. This illustrates government's continued thrust on urban infrastructure and irrigation projects. This is expected to provide boost to order books of companies focused on urban infrastructure and irrigation projects.

Clientele

The Company has a cross section of clientele ranging from major public sector undertakings to multinationals like MMRDA, Muscat Municipality, NHAI, HUDA, Gulf Cement, Almana group, Mumbai Metro One Pvt. Ltd, Dubai Metro, Jindal Steel & Power, Qatar Petroleum, Mitsubishi, Vedanta Resources, Siemens, & ABB.

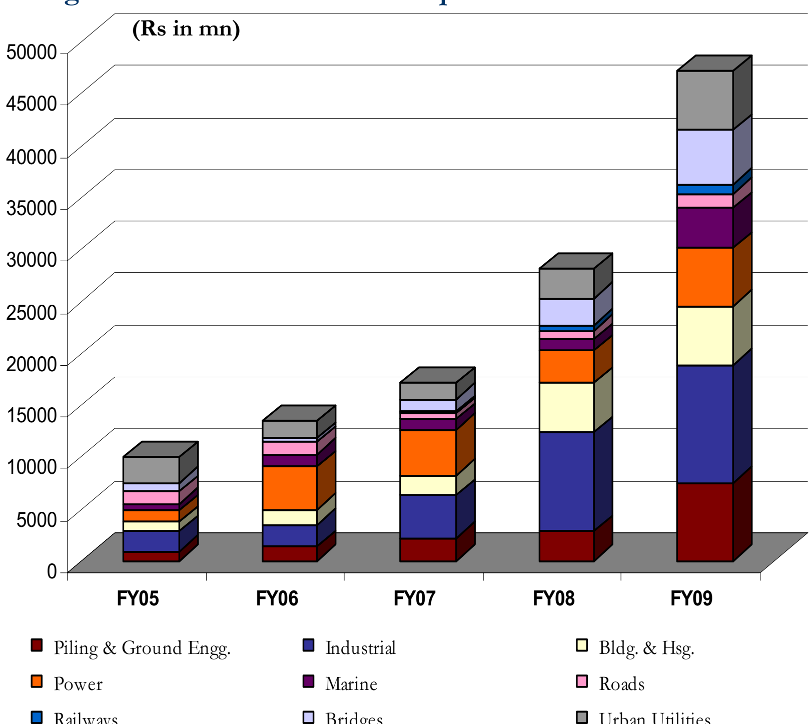


Source: Company, Wallfort research

Business Segment

SIL has emerged as a well-diversified construction services company with presence in almost all sectors of construction business. Company has bagged several prestigious orders in various sectors of the construction business viz., Ground Engineering, Power, Urban Infrastructure, Building & Housing, Marine, Industrial and Transportation.

Segment Wise Revenue Break-Up



Source: Company, Wallfort research

Piling & Ground engineering

- Ground engineering encompasses activities related to 'foundation engineering' – a thorough understanding of various soil types, their load-bearing capacity and the specialised alteration required to enable the soil to withstand pressure for years to come
- Having been present in this space since inception in 1924, mastery of this space enabled SIL's forward-integrate to provide services across civil and structural engineering and end-to-end infrastructure solutions. Till date Simplex Infrastructure has installed over two million piles. **This segment accounts for 4% of current order book.**
- For the first time in Asia, Simplex Infrastructure introduced the patented Geopiers technology in piling and soil densification during as assignment for the Group Housing Project in Sector 61, Noida.
- Simplex Infrastructure has made its mark in CNS ground technology resulting in an expertise in geo-synthetic applications and well-point de-watering
- Simplex Infrastructure also accepts contracts in the area of sand drains, band drain, sand piles, rammed stone columns, geo-grid and geo-textile applications, reinforced earth applications, earth applications and special problem shooting.
- Simplex Infrastructure evolved different methods of piling to meet ever changing construction needs such as: Driven cast-in-situ RCC piles, Bored cast-in-situ piles, Pre-cast single length RCC piles, Pre-cast jointed RCC piles, Under-reamed piles, Steel / RCC sheet piles, Diaphragm walls
- The Company's major achievements in foundation engineering comprise of the following: Largest single contract in piling, fastest installation rate for cast-in-situ piles ever installed in India, deepest cast-in-situ piles and the deepest jointed pre-cast driven piles.

Industrial Projects

- Present in this sector since mid 1930s, Simplex Infrastructure offers an entire gamut of heavy industrial construction in civil and structural engineering for the following industries: Iron and steel, aluminium, cement, paper, fertiliser, textile, chemical, refineries, petrochemical and other Industries. **This segment accounts for 18% of current order book.**
- It possesses latest expertise in construction of high-rise RCC silos and tapered / cylindrical chimneys with a height of 220 mts and wall thickness of up to 600 mm, cooling towers, water and effluent treatment plants for industries such as cement, paper, fertilisers and power stations.
- It uses the slip form shuttering system – a method which demands meticulous designing and calculation for maintaining the delicate balance required between the height of the structure and the thickness of the wall.
- The Company's range of industrial creations includes refineries and petrochemicals, iron & steel plants, alumina refinery, copper smelters, chemical plants, process industry, automobiles plant and paper plants.
- The company has been associated with some of the major industrial projects in India and abroad are:

  - Steel plants – TISCO (Jamshedpur), IISCO (Burnpur) and SAIL (Durgapur), RINL, TSIL, Bhusan Steel, Ispat, JSPL
  - Alumina refinery and Aluminium Smelter – Vedanta, Lanjigarh and Jharsuguda Orissa, Hindalco Renukoot
  - Petroleum refinery – Reliance (Jamnagar), IOCL (Haldia, Guwahati, Digboi, Baroda, Bongaigaon) and others
  - Fertiliser plants - Gorakhpur, Paradip, Phulpur, Kakinada and several others
  - Paper mill - Nowgong, Churk, Vellore, Amlai and Ranigunge
  - Cement plants - Chandrapur, Cuddapah, Devapur, Madhukunda, Mejia, Sonadih, Kotputli, Shambupura, Doha (Qatar)

Marine

- Simplex infrastructure's first marine project was the King George Docks in Mumbai in 1940.
- Simplex Infrastructure enhanced its focus and evolved marine constructions into one of its primary divisions as a clear extension of the Company's core competence in land piling into piling under water
- Today it is associated with most of the major marine projects like Cochin port, Adani, Marg, Paradip port and Nakilat Ship Repair Yard at Doha. **This segment accounts for 6% of current order book.**
- Its area of operation includes the design and construction of offshore structures like ports, harbours, jetties, wharfs, quays, berths, dry docks, wet basin, mooring and berthing dolphin sand breakwater etc.

Power

- Simplex Infrastructure is present in the hydel, thermal (coal, gas) and nuclear power plant segment since 1960.
- The Company is into thermal (coal and gas), nuclear, and hydro power plants and is associated with more than 80% of all thermal power plants in India
- Simplex Infrastructure holds a record in the installation of the largest number of turbo generator foundations ranging from 10 MW to 1000 MW. **This segment accounts for 24% of current order book.**
- Its major activity has been in the following fields:
  - Civil works including TG and boiler foundation and other ancillary structures.
  - Design and construction of coal handling plants, water and effluent treatment plants, raw material plants.
  - Construction of RCC chimneys by slip form technique, cooling towers, cooling water systems and ash handling plants.
  - Structural steel fabrication and erection of mechanical equipment.
- The company has been associated with some of the major Power projects in India and abroad are:
  - Thermal power plants at Simhadri, Vindyachal, Bakreshwar, Korba, Chandrapura, Raigarh, Angul, Mejia, Santaldih and Sagardighi, Koradi, Maithon, Mundra, Chennai, Parli and others.
  - Nuclear power plants at Kudankulam.
  - Hydel Power Plant at Teesta.
  - Qatalum Power Plant Project, Doha and substations for Qatar Power Transmission expansion.

Urban Infrastructure and Utilities

- Simplex Infrastructure is present in urban infrastructure and utilities since 1965. The company undertakes turnkey civil works in water, waste water and sewage treatment plants and pipelines, metro rails, airports, sports and entertainment complexes.
- With scale and integration being representative of a large number of infrastructure projects in the country, developers and builders like are turning to infrastructure providers who can manage the entire lifecycle of a project.
- SIL's commitment is reflected in the fact that the company embarked upon providing the entire project lifecycle from conceptualisation to implementation and execution to commissioning. **This segment account for 18% of current order book.**
- The company has been associated with some of the major Urban infrastructure and Utilities projects are:

- Sewerage and water systems in Calcutta, Hyderabad, Bilaspur, Jabalpur, Indore, Chennai
- Metro Rail: Kolkata, Delhi, Bangalore, Mumbai & Dubai
- Jaipur and Udaipur Airport

Roads, Railways & Bridges

- SIL has been associated with projects under GQ and NSEW corridors since 1980.
- It has a vast experience in building bridges using pre-stressed cast-in-situ concrete girders and well foundations for water sites. It has built bridges over rivers and has expertise in RCC pre-stressed concrete bridges
- It forayed into the railways sector in 2006 with projects involving the construction of related buildings, bridges and platforms.
- **This segment accounts for 17% of order book, which includes 2% of road projects, 1% of railway projects and 14% of bridges.** The company is laying greater focus on bridges because of higher margins.
- The company has been associated with following major projects:

  - Roads, highways and railways across India for NHAI, MSRDC and RVNL
  - 12.5 Km elevated expressway in Hyderabad for HMDA.
  - Flyovers in Delhi, Mumbai, Bangalore, Nagpur, Jaipur, Chennai and Guwahati
  - Howrah Bridge and Bally Bridge approaches
  - 6 flyovers in Muscat, Oman

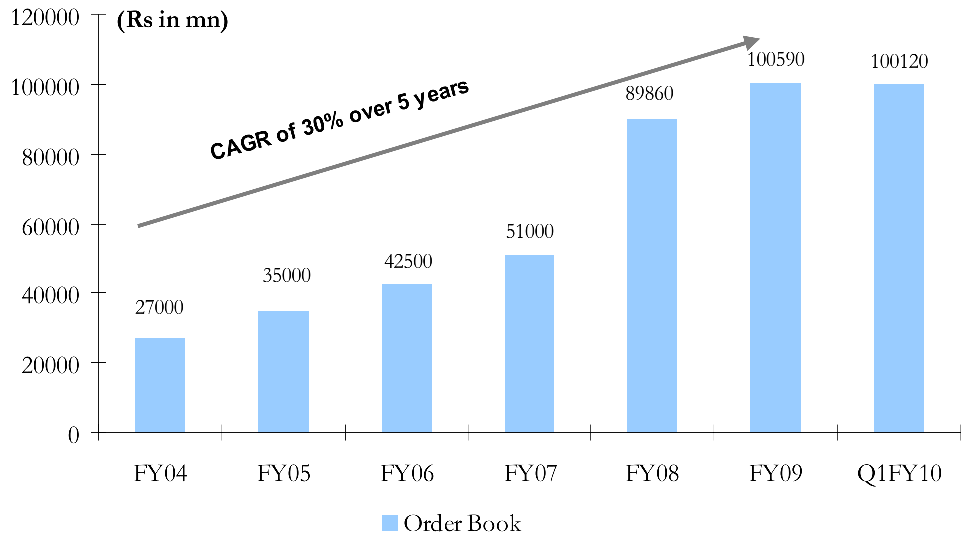
Building and Housing

- Simplex infrastructure is presence in building and housing since 1955. The company has completed prestigious projects where the demand was for top class construction quality and speedy construction including the construction of the first 17th Storied RCC framed building in South East Asia at Kolkata.
- In collaboration with Aardings, Holland, the Company has introduced a super-fast construction technology in India, which executes building projects with amazing speed. The technology can be adapted for buildings of different shapes and sizes of multi-storied offices and residential complexes, hotels and hospitals, row houses etc. **This segment account for 13% of current order book.**
- It is currently undertaking 22 mn sq ft across 90 towers for clients like Sheth, Brigade, Keppel, Unitech, Central Park, Ritz Carlton, Al-Arab contractor, Al-Tejir & Hilton etc.

Order Book Position

As on 31st August 2009, Simplex Infrastructure had an order back of Rs.110bn including orders under L1 status of Rs.7bn comprising 23% overseas. Its current order book shows a bias towards power projects, urban infrastructure & utility projects, industrial structures, bridges and building & housing contracts. The average execution period of two-and-a-half years provides good revenue visibility for FY10-11.

Order book has grown at a CAGR of 30% over the past 5 years.



Source: Company, Wallfort research

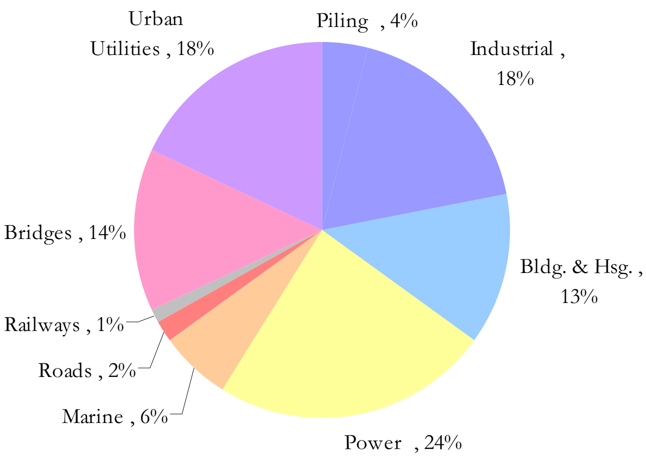
Fig: Business Segment-wise Order book as on 30th June 09			
	Domestic (%)	**Overseas (%)**	**Total (%)**
Piling	3	1	4
Industrial	9	9	18
Bldg. & Hsg.	6	7	13
Power	21	3	24
Marine	5	1	6
Roads	2	-	2
Railways	1	-	1
Bridges	12	2	14
Urban Utilities	18	-	18
Total	**77**	**23**	**100**

Source: Company, Wallfort research

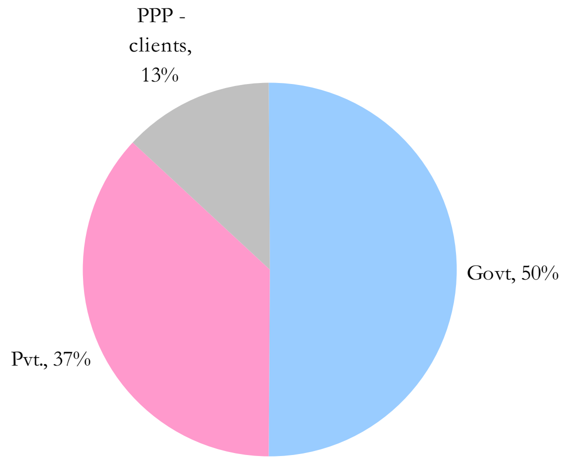
Fig: Sector-wise Order book as on 30th June 09			
Sector	**Domestic (%)**	**Overseas (%)**	**Total (%)**
Infrastructures	80	30	69
Industrial	12	38	18
Bldg. & Hsg.	8	32	13
Total	**100**	**100**	**100**

Source: Company, Wallfort research

Segment wise Order book as on 30th June 2009



Order book (client wise) as on 30th June 2009



Source: Company, Wallfort research

The company is pre-qualified for projects worth Rs.340bn. while Rs.7bn. worth of orders is in L1 stage.

Fig: Pending Bids

Segment	Domestic (%)	Overseas (%)	Total (%)
Piling	3	2	5
Industrial	20	8	28
Bldg. & Hsg.	1	3	4
Power	19	12	31
Marine	1	-	1
Roads	-	-	-
Railways	3	-	3
Bridges	6		6
Urban Utilities	16	6	22
Total	**69**	**31**	**100**

Source: Company, Wallfort research

On-shore Oil Rig Business:

SIL forayed into couple of newer business avenues in FY08. The company has forayed into On-shore Oil rig business with purchase of 1500 HP rig costing Rs.466.40 mn. The rig is funded with mix of internal accruals (30%) and debt (70%). The company entered into an agreement with Oil India Ltd. for on-shore oil exploration with rental of $16000 per day for the contract period. A period of one and half years is due for to the contract to expire. The contract is extendable for another one year. The contract is an annuity based project, which will generate revenue for the next one and half years. The company has 55% of EBITDA margin. However, fall in crude oil prices and consequent decline in rental rates made the company postpone the plan to further expand the scale & scope of this business.

Infrastructure Sector Overview

- More than half of construction activity is generated from infrastructure sectors, followed by industrial, commercial and residential sectors. Infrastructure industries such as power, highways, civil aviation, ports and shipping were significantly affected by the global financial crisis.
- The signs of revival that first surfaced in early 2009-10 and accelerated with the election of a stable government in New Delhi gave the industry reason to look forward with some cheer.
- The stimulus packages have begun to have some effect and a further thrust in infrastructure investment has been promised in the Budget.
- The bulk of planned expenditure under the 5- Year Plan also remains to be spent. Government projects, which constitute over two thirds of all infrastructure spending, is expected to be in the rise with more roads, freight corridors, ports and urban infrastructure projects being taken up over the next several years.
- Recognizing the critical importance of the infrastructure sector, the Government of India has accorded it a high priority. With a view to accelerate infrastructure development in the country, the government has planned huge capital spending on infrastructure development.
- The government has planned for an estimated capital outlay of Rs.20.27trn or US$ 494.43 billion over the 11th five year plan.
- The government realises that this cannot happen unless there is significant private-sector participation.
- It is estimated that out of the total outlay on infrastructure sector during 11th five year plan, the government expects 29.7 per cent of total outlay to come from private participation and the balance through public funding.
- The spending is planned across all the segments, with power likely to see the maximum spending of 30.4 per cent of the total outlay during the 11th five year plan. Other sectors to see major outlays are roads, railways, telecoms and irrigation with total infrastructure outlays of 15.4 per cent, 12.7 per cent, 13.2 per cent and 11 per cent respectively.

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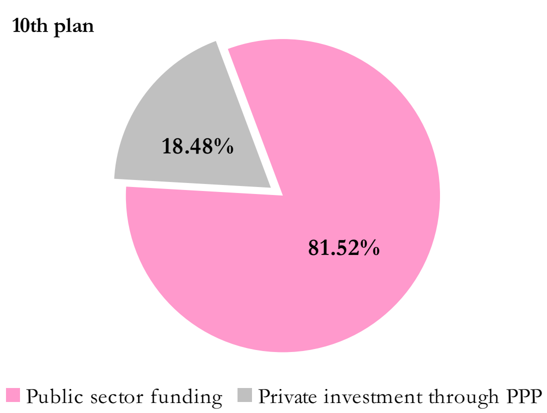
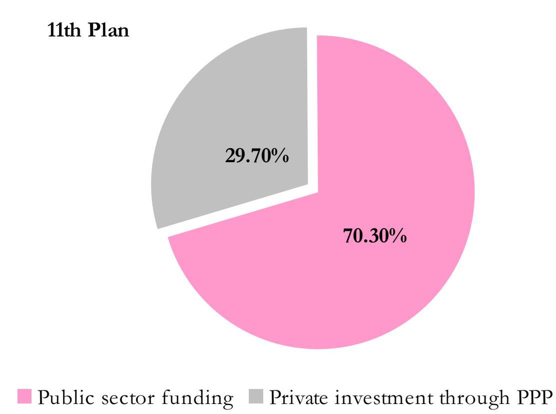
Proportion of resources mobilised





Source: Planning Commission, Wallfort Research

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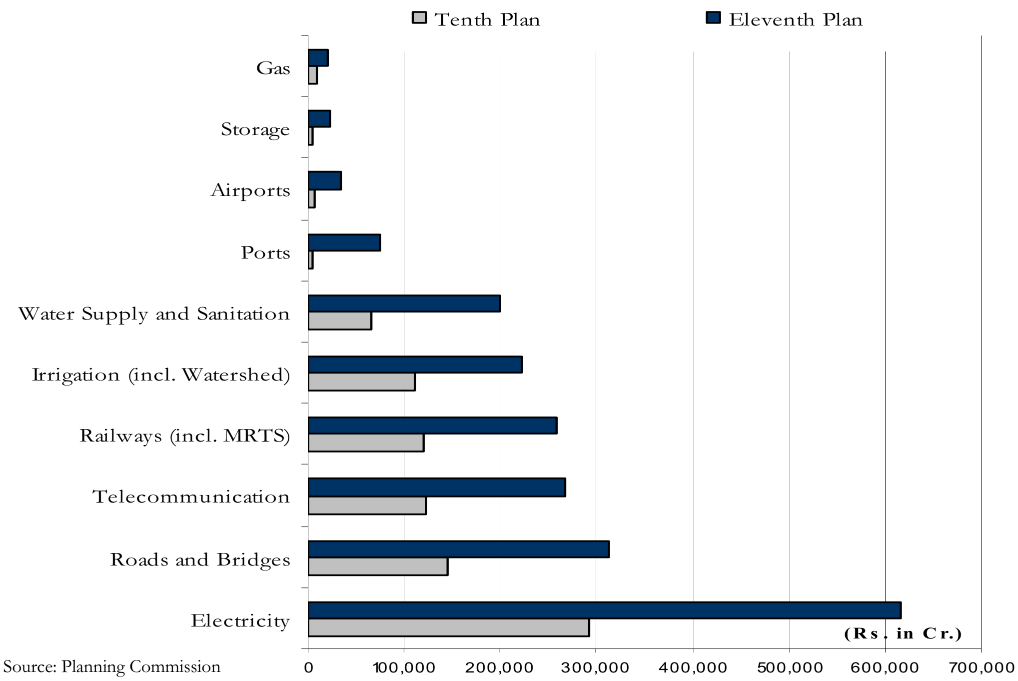
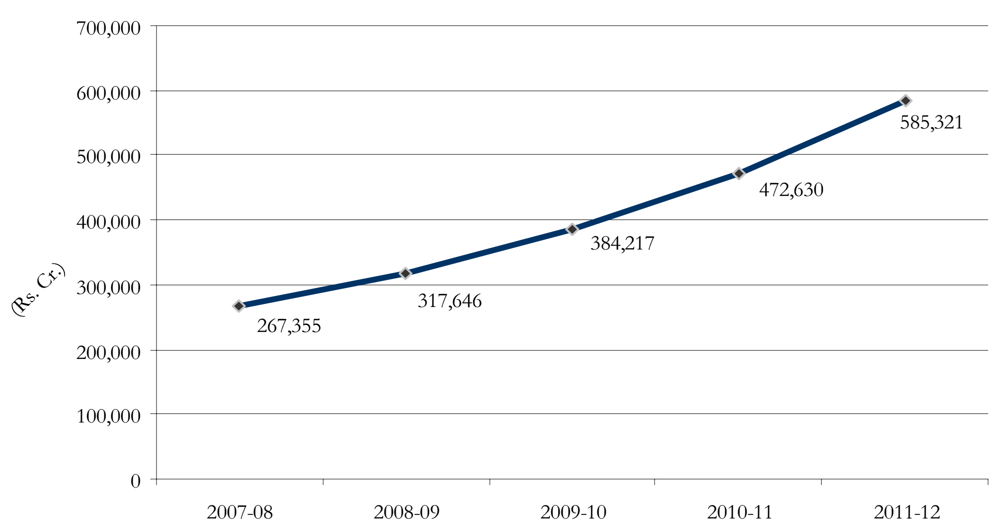


Source: Planning Commission

The biggest increase in PPP is expected in Roads (from 5% of total investments in the 10th plan to 36% in the 11th plan), Ports (47% to 74%), Railways (less than 1% to 20%), Gas (from nil to 32%) and telecom (36% to 67%). In the power sector the share of private investments is likely to actually decline from 32% in 10th plan to 26% in the 11th plan.

Projected Investment in Infrastructure in the Eleventh Plan

The Eleventh Plan envisages a huge investment in the infrastructure sector. It is a well established fact now that for India to sustain its high pace of growth its infrastructure needs to be upgraded to the highest quality. Also the penetration of quality infrastructure has to be increased so that the cascading effect of the phenomenal growth reaches to very nook and corner of the country.



Source: Planning Commission, Wallfort Research

Budget Highlights

- If there is any sector that can boast of walking away with most goodies from the Budget 2009-10, it is infrastructure. Be it the allocation for highways or irrigation programmes, rural development or accelerated power reforms, the increased infrastructure spending has been the key highlight of the Budget.
- Clearly, the sector is being viewed as the key driver of economic growth. The beneficiaries from such a massive infrastructure spending range from companies in the business of infrastructure development and contracting to even those that execute irrigation projects and power distribution and transmission lines.

Greater flexibility to IIFCL for financing new projects

In a bid to kick-start infrastructure lending, the Union Finance Minister, Mr Pranab Mukherjee, has revisited the idea of takeout financing in the Union Budget. IIFCL would soon evolve a 'takeout financing scheme'; in consultation with banks to increase infrastructure lending. Takeout financing involves securitising of infrastructure advances by primary financiers, especially banks, in favour of long-term financial institutions. The mechanism, an example of off-balance sheet funding, allows banks to sell assets to financial institutions at a mutually agreed price. Greater flexibility is provided to IIFCL for financing new projects and it can now refinance 60 per cent of bank loans in PPP projects and can support projects upto Rs 1 trillion.

Increased allocation for Bharat Nirman and NHDP

Allocation for Bharat Nirman and NHDP has been increased to Rs 454bn and Rs 160bn in 2009-10 from Rs 313bn and Rs 130bn in 2008-09 respectively. This is likely to result in higher order inflows in the roads and highways segment and is expected to provide boost to order books of companies focused on roads and highways segment.

Increased allocation for Jawahar Lal Nehru National Urban Renewal Mission and Accelerated Irrigation Benefit Programme

Allocation for JNNURM is increased to Rs.128.87bn for 2009-10 as against Rs.69bn for 2008-09 while allocation for Accelerated Irrigation Benefit Programme is increased to Rs.350bn in 2009-10 from Rs.200bn for 2008-09. This illustrates government's continued thrust on urban infrastructure and irrigation projects. This is expected to provide boost to order books of companies focused on urban infrastructure and irrigation projects.

Focus towards rural infrastructure creation

Allocation for Rajiv Gandhi Grameen Viduytikaran Yojana (RGGVY) has been increased to Rs.70bn for 2009-10 from Rs.55bn in 2008-09. Government has also increased budgetary allocations for Pradhan Mantri Gram Sadak Yojana to Rs.120bn for 2009-10 to facilitate connectivity to rural areas. This is positive for companies focused on rural roads and rural electrification.

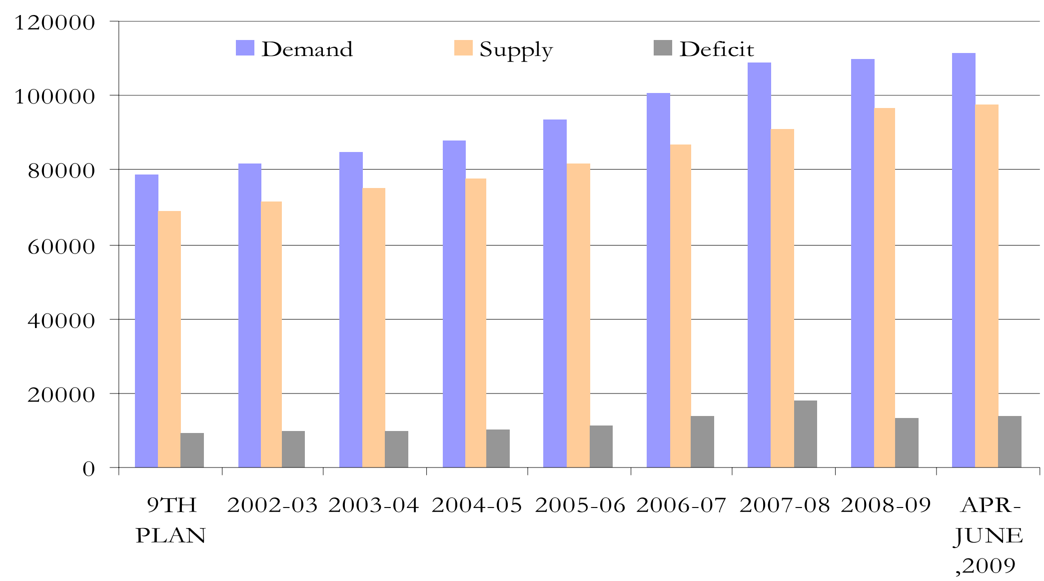
Power Sector Overview

India, which has the fifth largest power generation volume in the world, has seen its power sector struggling to cope with new challenges during the past decade. There has been some progress, but demand has grown very quickly due to the sector's direct correlation to economic growth. The demand for power in India is increasing rapidly, driven by strong economic growth, rising industrial and commercial activities and housing development, amongst other factors, and has outpaced supply. Hence, the power sector is expected to witness robust investment in the coming years supported by substantial regulatory reform.

India is largely power deficient nation with the deficiency continuously remaining at high levels.

More and more capacities are either under construction stage or under planning stage. But this has to be amply supported by a more widespread and extensive transmission network. Hence the demand for conductors, especially high tension and efficient ones is likely to rise many folds.

Electricity Demand - Supply with Deficit (in MW)



Source: CEA, Wallfort Research

The government has promised "Power to All" by 2012. For this, it intends to add 78,577 MW of capacity during the Eleventh Plan

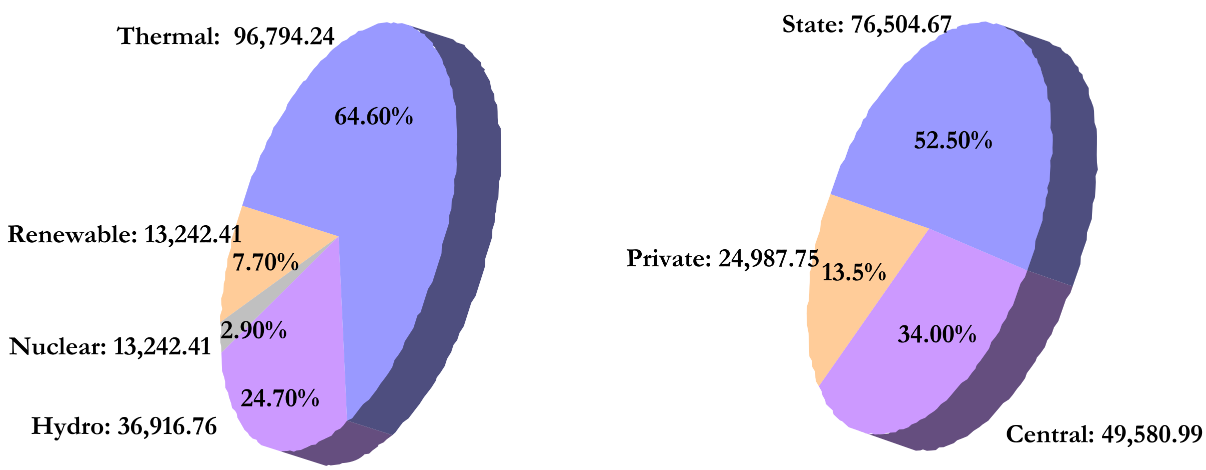
Installed Power Capacity

Total installed electricity generation capacity as on 31st July 2009 stood at 1,51,073.41 MW according to the Ministry of Power. Inspite of various initiatives undertaken by government of India to boost the development of power sector in the country, the power industry has not grown sufficiently to meet the rising demand, primarily due to delay in plant executions resulting from the poor financial health of SEBs, delay in getting clearance from CEA and inadequate access to necessary raw material. Furthermore, increased T&D losses have further impacted the growth of power companies.

Installed generation capacity by sector:

As of 30 June 2009, State Sector contributes 52.5%, Central Sector contributes 34.0% and Private Sector contributes 13.5% of total power generated in India. Likewise, Thermal plants accounts for 64.6%, Hydro plants – 24.7%, Nuclear – 2.9% and other Non Renewable resources accounts for 7.7% of total electricity generated in the country.

Installed capacity
- by fuel type (July 31, 2009) (MW) **- by Sector (June 30, 2009) (MW)**



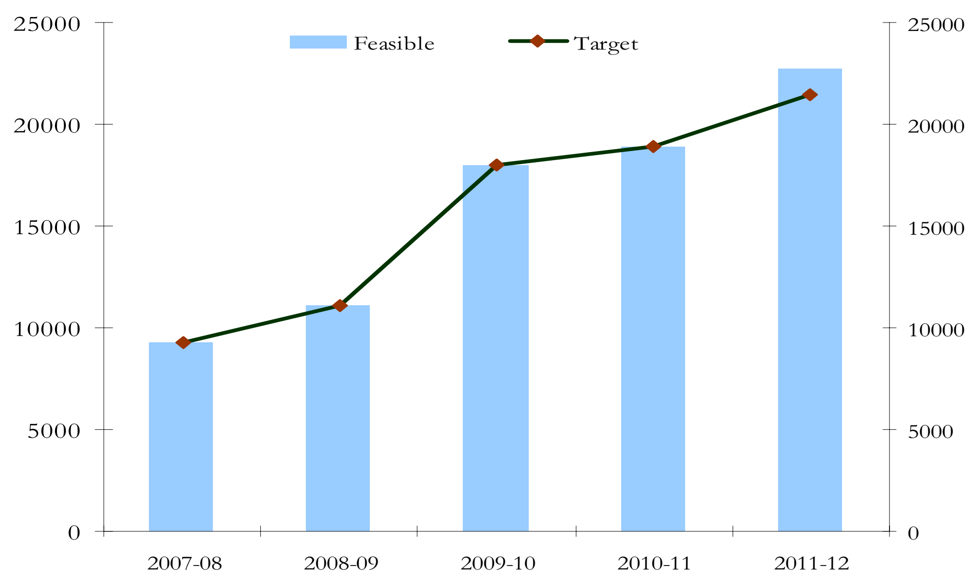
Source: CEA, Wallfort Research

Hence the Five Year plans have dealt extensively with the development of the power related infrastructure.

Inspite of the consorted effort of the Planning Commission and Government, the planned capacities in the 5 Year Plans till date have not been achieved. The rate of meeting the target is likely to increase. Also with Reliance all set to supply its gas from the KG Basin to gas fired power generation companies, the transmission needs are also set to witness a ramp up.

India is largely power deficient nation with the deficiency continuously remaining at high levels.

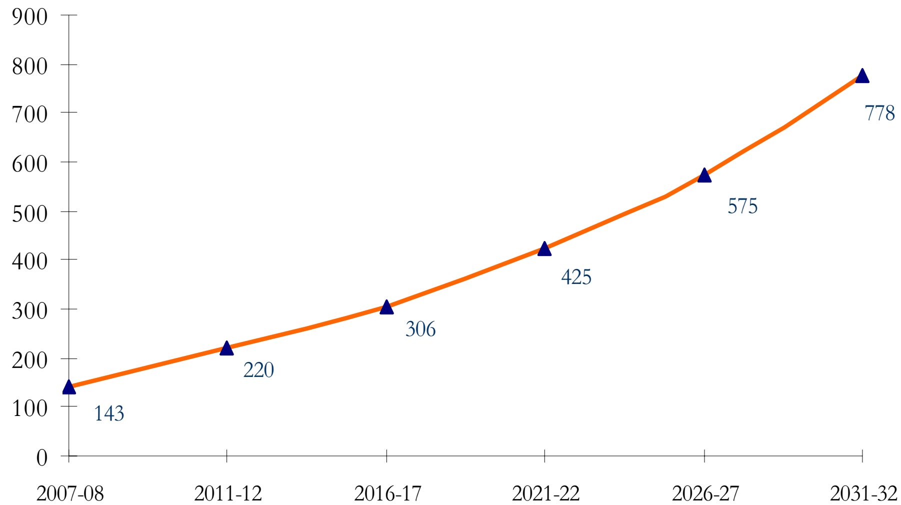
Feasible and Target Power Generation - 11th 5 Year Plan (MW)



Source: Planning Commission, Wallfort Research

In the next 24 years (from 2007-08 to 2031-32), the government expects the total capacity to go up to 778 GW of electricity production growing at a CAGR of 7.31%.

Cumulative Capacity requirement in next 24 Years (GW)

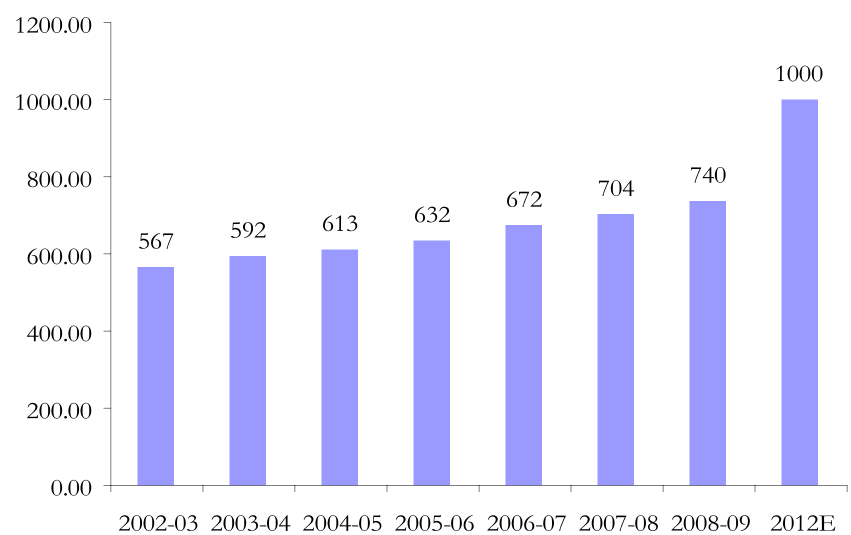


Source: Integrated Energy Policy, Planning Commission, Wallfort Research

Per Capita Consumption of electricity

India has a very low per capita power consumption, though it has increased from 566.7 units per year at the beginning of the Tenth plan period to 704 units per annum in 2007-08. Further, 11th Five Year Plan plans to increase per capita consumption to 1000 kWh by 2012. This is just a fourth of the world's average of over 2,596 units. For comparison, China has a per capita consumption of over 1,800 units.

All India Annual per Capita consumption of Electricity (kWh)



Source: CEA, Ministry of Power, Wallfort Research

Ports Overview

India has an extensive coastline of 7517 km, excluding the Andaman & Nicobar Islands. There are 12major ports and 200 non-major ports (minor and intermediate ports) spread across nine coastal states – Andhra Pradesh, Goa, Gujarat, Karnataka, Kerala, Maharashtra, Orissa, Tamil Nadu and West Bengal. Only 66 non-major ports are operational. The 12 major ports (six each on the east coast and west coast) are Chennai, Cochin, Ennore, the Jawaharlal Nehru Port Trust (JNPT), Kandla, Kolkata, Mormugao, Mumbai, New Mangalore, Paradip, Tuticorin and Visakhapatnam.

Indian ports handle around 95 per cent of India's total trade in term of volume and 70 per cent in terms of value. Major ports handle 72 per cent of the total cargo traffic while non-major ports account for 28 per cent.

Fig: Cargo traffic at Indian ports during 2004-09 (million tonnes)

Year	Major ports			Non-major ports			Total	
	Cargo traffic	Growth (%)	% share	Cargo traffic	Growth (%)	% share	Cargo traffic	Growth (%)
2004-05	383.75	11.29	73.57	137.83	14.06	26.43	521.58	12.01
2005-06	423.58	10.38	74.43	145.53	5.59	25.57	569.11	9.11
2006-07	463.78	9.49	71.36	186.12	27.89	28.64	649.90	14.20
2007-08	519.23	11.96	71.83	203.62	9.40	28.17	722.85	11.22
2008-09	530.35	2.14	71.85	207.78*	2.04	28.15	738.13	2.11

Source: IPA and Wallfort Research * Provisional figures

Though cargo demand has been affected in the last year to the global economic crisis, traffic at the Indian ports still increased at five-year CAGR of 9.06 per cent during 2004-05 and 2008-09. Major ports handled cargo traffic of 530.35mt in 2008-09, posting a low growth of 2.14 per cent over the previous year as against a growth of 11.96 per cent in 2007-08. At non-major ports, cargo handling stood at 207.78mt in 2008-09, registering a growth of 2.04 per cent compared to a growth of 9.4 per cent in 2007-08.

Seven projects are in progress at the major ports of Chennai, Ennore, Mumbai and Paradip. On completion, these will add capacity of 90mt. The total cost of these projects estimated to be Rs.86.14bn

Fig: Ongoing capacity expansion projects (as on March 31, 2009)

Projects	Port	Capacity (mt)	Estimated project cost (Rs. Bn)	Developer
Offshore container terminal	Mumbai	9.60	13.00	Gammon and spain-based Dragados SPL
International container transhipment terminal	Cochin	40.00	21.18	India Gateway Terminal Pvt Ltd
Second container terminal	Chennai	8.00	4.92	Chennai International Terminal Pvt Ltd. (PSA-Siscal consortium
Iron ore terminal	Ennore	12.00	5.14	Sical Iron Ore Terminal Ltd.
Coal terminal	Ennore	8.00	3.99	Chettinad International Coal Terminal Pvt Ltd.
LNG regasification terminal	Cochin	2.50	32.00	Petronet LNG ltd.
Iron ore berth	Paradip	10.00	5.91	Noble Group-led consortium

Source: Ministry of Shipping

The Government has proposed a total outlay of Rs.185.33bn excluding private sector investment) for major ports during the Eleventh Five Year Plan period (2007-12). Of the total outlay, internal resources, budgetary support and extra-budgetary resources constitute 75 per cent, 16 percent and 9 per cent respectively.
The estimated private investment for the major port during the period is Rs.368.68bn. For non-major ports, the total proposed outlay for the Eleventh Five Year Plan is Rs.359.32bn. In addition, the estimated private sector investment is Rs.290bn.

The development of Greenfield ports almost to a halt as the economic slowdown choked investment. However, cargo volumes are gradually reviving in the current fiscal year and so, private players are reviving their capacity expansion plans. **Several new projects involving total investments of over Rs.470bn and approximately 600mtpa of capacity are on the anvil.**

Fig: Upcoming Greenfield port projects in India

State	New port	Developer	Total project cost (Rs bn)	Capacity (mtpa)	Likely date of completion
Orissa	Dhamra	Tata Steel and L&T	19.71	83	Apr-10
	Gopalpur	Orissa Stevedores Ltd., Sara International Ltd. (New Delhi) and Noble Group Ltd. (Hong Kong)	18	14	2011(Phase II)
	Kirtania	Creative Port Development Pvt. Ltd.	21.87	10	2010 (Phase I)
	Astaranga	Navayuga Engineering Co. Ltd.	60	20	2010 (Phase I)
Maharashtra	Rewas	Reliance Group	51.14	55	2012 (Phase I)
	Dighi	Balaji Infra Projects Ltd.	16.5	20	May 2010 (Phase I)
	Jaigad	Chowgule Ports and Infrastructure Pvt. Ltd.	3.35	4	Dec-10
Gujarat	Positra	SKIL Infrastructure	38.88	1.5*	2011
	Dholera	Adani Group and JK Group	30	6	2011-12
	Mithivirdi	IL&FS and SKIL Infrastructure	4.8	5	2012
	Bedi		8.3	10	2012
	Khambhat	IL&FS	1.2	1.5	2012
	Sutrapada	L&T	20	5	2012
	Vansi-Borsi		17.75	14	2012
	Simar	Shapoorji Pallonji Group and Afcons	7.5	5	2012
	Maroli		20	10	2012
	Mahuva		4.5	3	2012
West Bengal	Kulpi	D P World	10	1.3*	2009
Kerala	Vizhinjam ICTT	Lanco Infratech Ltd, Lanco Kondapalli Power Pvt. Ltd. And Pembinaan Redzai Sdn Bhd	53.48	6.5*	-
Andra Pradesh	Gangavaram	D.V.S Raju led consortium	18	200	Aug 2008 (Phase I)
	Krishnapatnam	Navayuga Engineering Co. Ltd.	10	100	July 2008(Phase I)
Tamil Nadu	Karaikal	Marg Ltd.	20.5	4	April 2009 (Phase I)

Source: India Infrastructure research * million TEUs

Metro Rails- the future of Commuting

- The Planning Commission has accepted the recommendation that all cities with population more than 3 million should have metro rail system as a policy in its Plan Document.
- In India there are 8 such cities out of which 2 cities already have metro system so the unexplored potential for the upcoming projects in remaining 6 cities
- Metro rail projects in India need US $ 20 billion over a period of 10 years.
- The total network KM will in the range of 100-250 KM/CITY depending on the area of each city.
- To assist private players to take up metro projects, the union government has also established a viability gap funding mechanism, under which financial assistance to the tune of 20 per cent of the total project cost will be provided. The government is also planning to raise this share to 30 per cent.

Fig: PPP metro projects in India

Project/route	Total investment (Rs. Bn)	Project length (km)	Current Status
Delhi Airport Express Link - DMRC	40.00	22.70	In progress
Versova-Andheri-Ghatkopar corridor - Mumbai metro projects	23.56	11.07	In progress
Charkop-Bandra-Mankhurd corridor - Mumbai metro project	110.00	31.87	Recently awarded
Hyderabad Metro	120.00	71.00	Invited for Re-bidding

Source: India Infrastructure Research, Wallfort Research

Simplex Infrastructures Ltd. has completed the extension of the Kolkata Metro on the Tollygunge-Garia stretch which involved lots of obstacles and difficulties. This work involved pile foundation and sub-structure as well as elevated superstructure for double-line track on a very difficult terrain.

For Delhi Metro, simplex has been involved in constructing 7 under ground stations and 9 over ground stations and about 7km of elevated double track corridor viaduct in several phases and parcels of work awarded to it from time to time. The work on some of the Delhi Metro under ground stations in the high traffic crowded areas where extremely challenging. Yet Simplex was able to complete the work timely without disrupting the traffic. No wonder the company received very encouraging accolades from highest authority of DMRC. Simplex continues to be involved in future expansion work of Delhi Metro.

Simplex has completed 44km viaduct sub-structure work of Dubai Metro for Japanese contractor who was also involved in Delhi Metro. Currently, Simplex is working for Mumbai Metro, Bangalore Metro as well as Delhi Metro. For Mumbai Metro, the work involved is piling, sub-structure and superstructure of 11.7km long elevated double track corridor viaduct from Versova to Ghatkopar in Mumbai. In Bangalore, it is involved with 5.8km viaduct on the Mysore road. Simplex expects to contribute even more in the future for development of the Mass Rapid Transport by Rail or Road, underground or over-ground in the fast growing cities of the country.

Irrigation: Core Water Infrastructure growth area

The increased emphasis on irrigation was evident from the Eleventh Five Year Plan outlay of Rs.2.5trn, a 23% jump over previous plan. Among 28 states in India, 10 states are expected to account for 85% of total outlay set aside for irrigation during the XIth Plan.

Fig: Projected Investment in Irrigation (incl. Watershed) by Category during the XI Plan (Rs. in bn.)

Years	2007-08	2008-09	2009-10	2010-11	2011-12	Total XI Plan
Major and Medium Irrigation	171	234	320	437	578	1740
Minor Irrigation	39	50	63	80	101	334
Command Area Development	15	18	21	25	30	108
Flood Control	13	14	16	18	21	82
Watershed Development	37	44	52	62	74	270
Total	**275**	**359**	**472**	**623**	**804**	**2533**

Source: Planning Commission, Wallfort Research

Since substantial investments have been planned for Bharat Nirman programme under the States' sector and taking into account the thrust on irrigation sector during the Eleventh Plan, particularly on Major and Medium Irrigation and Minor Irrigation, States' spending on Major and Medium Irrigation has been assumed to grow annually at about 37 percent, on Minor Irrigation at 27 percent, on CAD at 21 percent, and on Flood Control at 15 percent. States' investment in Watershed Development Programmes is envisaged to grow at the rate of 24 per cent per annum during Plan period.

Under these assumptions, projected spending by the States on Major and Medium Irrigation works out to Rs.1733.38bn, and on Minor Irrigation to Rs.329.39bn. Adding to this spending by States of Rs.98.06bn on CAD, Rs.73.39bn on Flood Control and another Rs.51.20bn on Watershed Development, yields a total of States' investment in irrigation of Rs.2285.43bn over the Eleventh Plan.

As per the constitution, irrigation is a State subject; hence, the substantial investment will be contributed by the State Governments in this sector. The states receive assistance under Accelerated Irrigation Benefit Programme (AIBP) for timely completion of the projects at state level, which has benefited towards the development of irrigation facilities.

Fig: Anticipated expenditure over the planned period

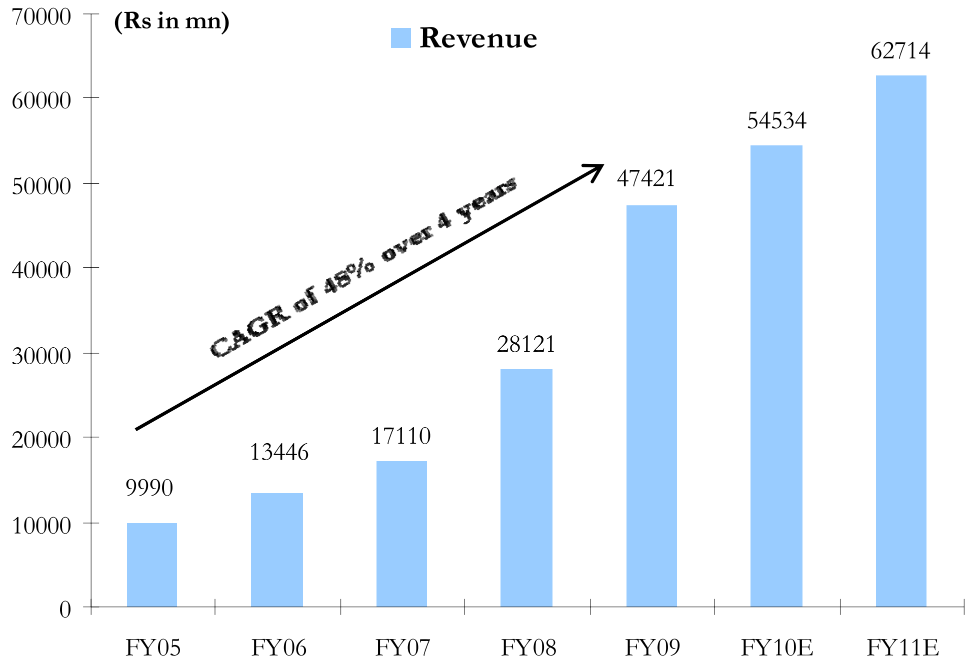
(Rs. in bn)	Xth Plan	XIth Plan
State	979.00	2290.65
Central Plan	136.00	242.35
Total	**1115.00**	**2533.00**

Source: Planning Commission, Wallfort Research

Financial Highlights

SIL's Revenue has grown at a CAGR of 48% from Rs.9990mn in FY05 to Rs.47421mn in FY09 and is expected to grow at a CAGR of 16.66% from Rs.54534mn in FY10E to Rs.75256mn in FY2012E period.

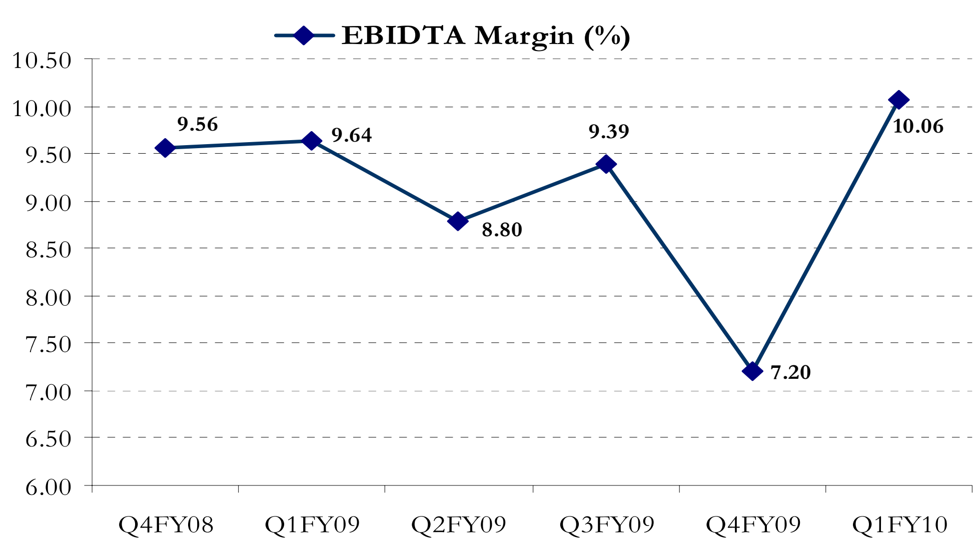
The strong order book position and the impending plans of the government would result in SIL achieving higher revenues in the coming years.



Source: Company, Wallfort Research

The EBITDA margin has improved from 7.20% in Q4FY09 to 10.06% in Q1FY10. 4QFY09 margins have been impacted mainly on-account of debtor's write-offs of Rs180m. During FY09, company wrote-off Rs250m of debtors from government sector since they were long due, of which Rs180m was provided during 4QFY09.

EBITDA margins are expected to increase by 62 bps from 9.56% in FY09 to 10.18% in FY10E.



Source: Company, Wallfort Research

SIL's revenue for Q1FY10 stood at Rs.11267.20mn which is 10.83% higher than revenues for Q1FY09. EBITDA were higher by 15.63% at Rs.1133.50mn in Q1FY10 compared to Rs980.30mn in Q1FY09. Profit after Tax for Q1FY10 was down 19.28% at Rs.309.40mn compared to Rs.383.30mn in Q1FY09. During Q1FY10, 30% of the total income was derived from international operations.

Fig: Quarterly Performance Highlights

(Rs. in mn)	Q1FY10	Q1FY09	% Chg Y-o-Y	Q4FY09	% Chg Q-o-Q
Net Sales	11,267.20	10,166.60	10.83	13,875.60	-18.80
Other Income	14.2	18	-21.11	30.1	-52.82
Total Income	11,281.40	10,184.60	10.77	13,905.70	-18.87
Total Expenditure	-10,147.90	-9,204.30	10.25	-12,906.70	-21.37
EBIDTA	1,133.50	980.30	15.63	999.00	13.46
Depreciation	-383.2	-153.5	149.64	-220.30	73.94
EBIT	750.30	826.80	-9.25	778.70	-3.65
Interest	-347.9	-274.5	26.74	-392.3	-11.32
PBT	402.40	552.30	-27.14	386.40	4.14
Tax	-93	-169	-44.97	-87.8	5.92
PAT	309.40	383.30	-19.28	298.60	3.62
Margins (%)					
EBIDTAM	10.06	9.64	41bps	7.20	286bps
NPM	2.75	3.77	(102bps)	2.15	59bps

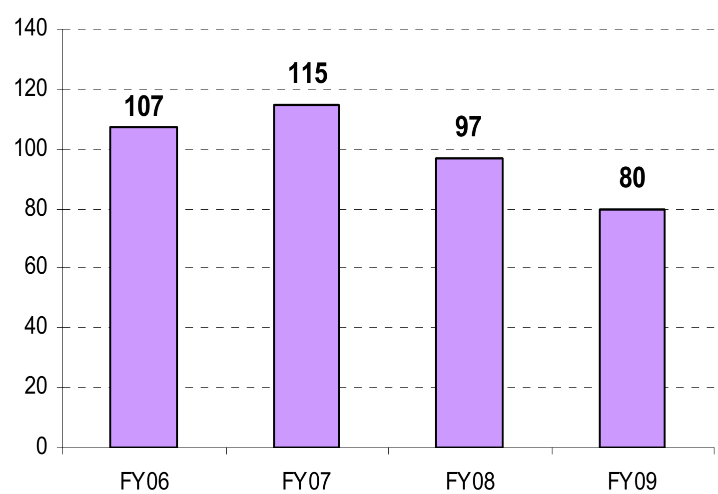
Source: Company Wallfort Research

Interest charges were higher by 26.74% at Rs.347.90mn in Q1FY10 compared to Rs.274.50mn in Q1FY09 due to rise in interest rates & increased bank borrowings for funding working capital requirements. Total debt stood at Rs12.40bn. The foreign debt stands at Rs4b, which is fully hedged.

Depreciation & amortization charges more than doubled to Rs.383.20mn in Q1FY10 compared to Rs.153.50mn in Q1FY09 backed by an additional procurement of plant & machinery. The company has incurred a capex of Rs.4.25bn in FY09 and plans to further incur a capex of around Rs 100 cr in FY10. Gross block stood at Rs12.3bn.

The reduction in debt has been driven by improving working capital cycle, with net working capital cycle at 80days in FY09 as against 97days in FY08. This working capital improvement has been driven by better inventory and debtors management which has witnessed substantial improvement during FY09.

Working Capital Days



Source: Company Wallfort Research

Peer comparison

Company Name	Revenue (Rs. in bn)	EBIDTA (Rs. In bn)	PAT (Rs. in bn)	EBIDTAM (%)	EPS (Rs.)	P/E	EV/EBITDA
IVRCL Infra	49.52	5.23	2.47	10.56	18.53	21.10	15.47
Nagarjuna Construction	47.86	5.20	1.81	10.86	7.93	18.07	12.25
Simplex Infra	47.42	4.53	1.23	9.56	24.95	17.60	6.80
Gammon India	52.20	4.97	0.56	9.52	4.58	20.98	9.37
HCC	35.60	5.11	0.59	14.36	2.46	43.75	13.29

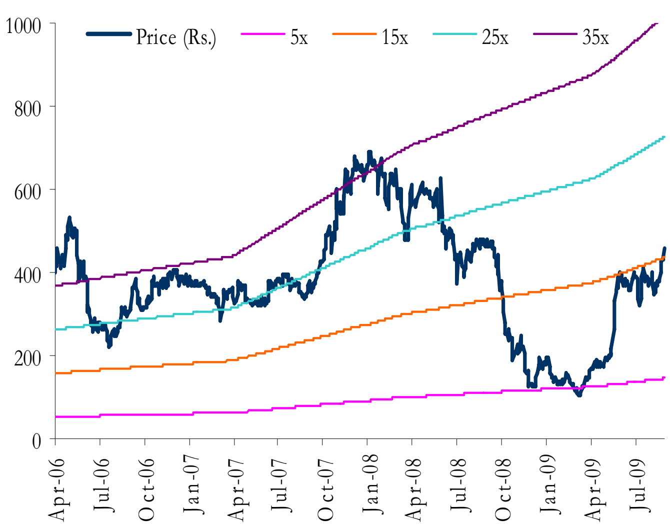
Source: Annual Report, BSE, Bloomberg, Wallfort Research

Subsidiary Companies of SIL

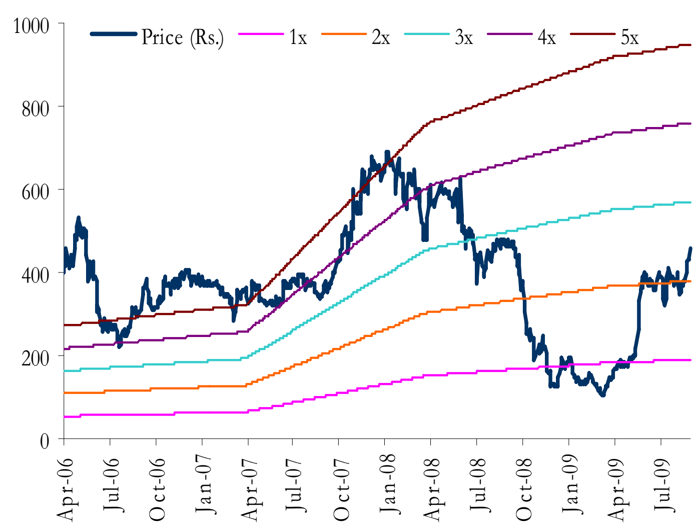
SIL has set up a subsidiary in the form of a Joint Venture at the Sultanate of Oman with an Omani National in the name and style of 'Simplex Infrastructures LLC' ("LLC Company"). The Company has a 70% stake in the LLC Company while the Omani National holds 30% stake in the same. The LLC Company which obtained Commercial Registration from the Ministry of Commerce & Industry, Sultanate of Oman on 27th January, 2009 has been set-up with the objective of expansion of the business activities of the Company.

A Company in the name and style of 'Simplex (Middle East) Ltd.' ("SMEL"), was incorporated in the Free Trade Zone of Ras-Al-Khaimah, UAE on 27th day of October, 2008. SMEL became a subsidiary of your Company in May 2009, and presently your Company holds 100% stake in the said Subsidiary. The main activities of the newly formed SMEL, is to carry out contracting, construction and engineering services along with any other business incidental or ancillary to the said activities.

P/E Band



P/BV Band



Source: Company, Wallfort Research

Income Statement (Rs. mn.)

Date End	FY 08	FY 09	FY 10 E	FY 11 E
Net Sales	**28120.90**	**47420.60**	**54533.69**	**62713.74**
Other Income	245.67	139.10	100.00	100.00
Total Income	28366.57	47559.70	54633.69	62813.74
Expenditure	25446.10	43027.60	49080.32	56285.58
EBIDTA	**2920.47**	**4532.10**	**5553.37**	**6528.16**
Dep. & amortisation	642.65	1320.20	1522.31	1638.49
EBIT	**2277.82**	**3211.90**	**4031.06**	**4889.67**
Interest	1007.30	1419.90	1449.00	1523.75
Profit before Tax	**1270.51**	**1792.00**	**2582.06**	**3365.92**
Tax	369.71	489.90	800.44	1043.43
Profit After Tax	**900.80**	**1302.10**	**1781.62**	**2322.48**
Other Adjustment*	0.00	67.90	10.00	10.00
Net Profit for the year	**900.80**	**1234.20**	**1771.62**	**2312.48**
No of Eq. Shares (in mn.)	49.47	49.47	49.67	49.67
EPS	20.15	24.95	35.67	46.55

Balance Sheet (Rs. mn.)

as at 31st March	FY 08	FY 09	FY 10 E	FY 11 E
Share Capital	99.33	99.33	99.73	99.73
Advance against warrants	212.53	212.53	0.00	0.00
Reserves	7219.25	8776.51	9782.54	11117.54
Networth	**7531.11**	**9088.37**	**9882.27**	**11217.28**
Minority Interest	**0.00**	**14.23**	**35.00**	**40.00**
Secured Loans	3799.63	7692.65	8000.00	8500.00
Unsecured Loans	3693.78	4512.03	4600.00	4750.00
Total Loan	**7493.42**	**12204.68**	**12600.00**	**13250.00**
Deferred Tax Liability	371.45	578.77	500.00	500.00
Total Liab.	**15395.98**	**21886.05**	**23017.27**	**25007.28**
Gross Block	7566.63	12194.12	13343.96	15873.74
Depreciation	1271.95	2083.49	3605.80	5244.29
Net Block	6294.68	10110.63	9738.16	10629.45
Capital work-in-progress	242.65	138.58	100.00	150.00
Total Fixed Assets	**6537.33**	**10249.21**	**9838.16**	**10779.45**
Investment	**98.74**	**20.92**	**20.92**	**20.92**
Current Assets	21142.80	29456.31	32277.90	36063.69
Current Liability	12266.76	17721.39	19000.00	21737.08
Net Current Assets	**8759.90**	**11615.92**	**13158.19**	**14206.91**
Total Assets	**15395.98**	**21886.05**	**23017.27**	**25007.28**

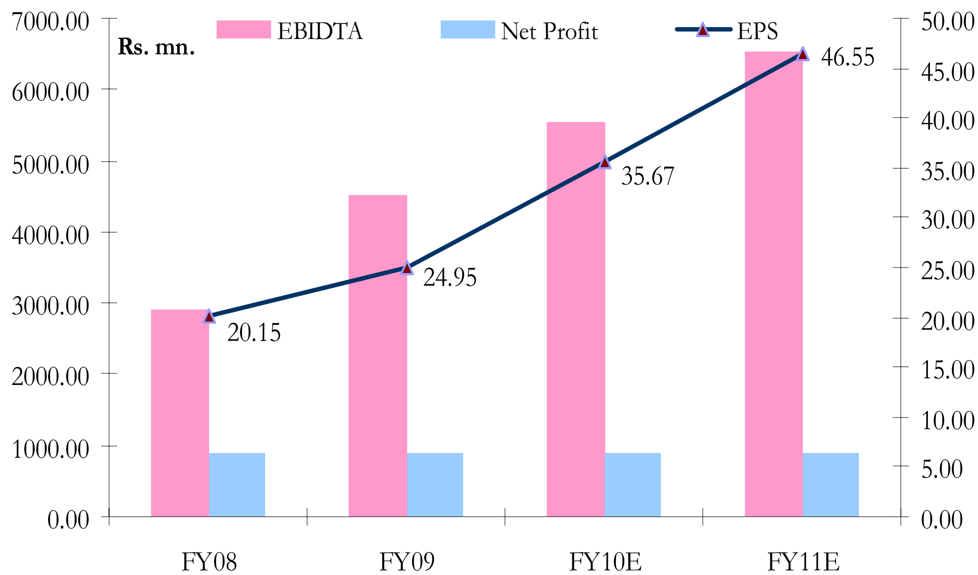
Source: Company, Wallfort Research

Ratio Analysis

Category	FY 08	FY 09	FY 10E	FY 11E
Margin Ratio				
EBDITA Margin	10.39%	9.56%	10.18%	10.41%
Net Profit Margin	3.20%	2.60%	3.25%	3.69%
Profitability Ratios				
ROCE	14.79%	14.68%	17.51%	19.55%
RONW	11.96%	13.58%	17.93%	20.62%
ROA	5.85%	5.64%	7.70%	9.25%
Du Point Analysis				
PAT / PBT	0.71	0.69	0.69	0.69
PBT / EBIT	0.56	0.56	0.64	0.69
EBIT / Net Sales	0.08	0.07	0.07	0.08
Net Sales / TA	1.83	2.17	2.37	2.51
TA / Equity	2.04	2.41	2.33	2.23
ROE	11.96%	13.58%	17.93%	20.62%
Valuation Ratios				
EV/EBITDA	8.67	6.80	7.33	6.12
EV/ Net Sales	0.90	0.65	0.61	0.54
Leverage Ratios				
Debt-Equity Ratio	0.99	1.34	1.28	1.18
Turnover Ratios				
Fixed Assts	4.47	4.69	5.60	5.90
Working Capital	3.21	4.08	4.14	4.41
Inventory	5.93	6.98	6.82	7.00
Total Assets	1.83	2.17	2.37	2.51
Liquidity Ratios				
Current Ratio	1.71	1.71	1.65	1.69
Other Ratios				
EPS	20.15	24.95	35.67	46.55
Book Value per share	152.23	183.71	198.95	225.83

* Other Adjustment = Share in Profits/(Losses) of Associates (net) + Share of loss transferred to minority + Pre acquisition profits adjusted against goodwill

Financial Performance



Source: Company, Wallfort Research

Valuation

At current EPS of Rs. 22.43 and a price of Rs.439.00 the stock trades at a P/E(X) of 19.57. Going forward the company's EPS is expected to be Rs.35.67 FY10 (E) and Rs.46.55 FY11 (E) after taking into account possible dilution of equity. This makes the stock to trade at attractive valuations with a P/E(X) of 12.30 and 9.43 for FY 10 and FY 11 earning at current market price for the stock respectively. Hence, we initiate coverage on the stock with a 'BUY' recommendation with a target price of Rs.535 with a twelve month perspective and with an upside of 22%.

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