



Simplex Infrastructure

BSE SENSEX 18,202	S&P CNX 5,532	CMP: INR221	TP: INR290	Buy								
Bloomberg Equity Shares (m)	SINF IN 49.5	Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/ Sales	EV/ EBITDA
52-Week Range (INR)	366/157	3/10A	44,427	1,227	24.8	-6.9	-	-	13.1	13.3	-	-
1,6,12 Rel. Perf. (%)	-2/-29/-33	3/11A	47,497	1,232	24.8	0.1	8.9	1.0	12.0	12.5	0.6	5.8
M.Cap. (INR b)	10.9	3/12E	57,946	819	16.5	-33.5	13.4	0.9	7.3	11.2	0.5	6.0
M.Cap. (USD b)	0.2	3/13E	67,682	1,221	24.6	49.0	9.0	0.9	10.1	12.9	0.5	5.1

- Simplex Infrastructure (SINF) reported revenue of INR16b (up 37% YoY) for 3QFY12, significantly higher than our estimate of INR13.2b. Execution picked up both on the domestic front as well as on overseas business. Domestic revenue grew 40% YoY to INR14.2b and overseas revenue increased 17% YoY to INR1.3b, as countries like Ethiopia, Qatar and Bangladesh started contributing.
- EBITDA at INR1.26b (up 20.3% YoY) was in-line with our estimate. EBITDA margin stood at 8.1% (down 110bp YoY) v/s our estimate of 9.5%. The management attributed the decline in EBITDA margin to the initial start-up cost in certain projects. A lot of new projects are in the initial phases as the order book was ramped up during the last two quarters. However, blended margin on the order book is still 10.5%+, which the management expects to achieve in a couple of quarters. PAT declined 22.3% YoY to INR180m v/s our estimate of INR157m. Net margin stood at 1.1% v/s 2% in 3QFY11, dragged by high net interest cost of INR550m (v/s INR362m in 3QFY11). Debt as at end-December 2011 stood at INR20.5b v/s INR16b as at March 2011.
- Order book during the quarter remained stable at INR144b, up 4% YoY. Order intake declined 52% YoY to INR10b. Intake during Jan-Feb 2012 stood at INR20.9b. So the total intake in 9MFY12 stood at INR59b v/s INR79b in FY11. Further, SINF has bagged L1 projects worth INR50b. Of the current order book, power segment contributes 49% (v/s 24% in Dec-10). Share of buildings increased to 30% from 20% in Dec-10. Of this, real estate forms 16%, where execution is a concern. Share of industrial declined to 3% (v/s 15% in Dec-10). According to the management, easing interest rate scenario should revive industrial investment.
- We have increased our revenue estimates by 6% for FY12 and by 9% for FY13 and PAT estimates by 2% for both FY12 and FY13 on account of the revival in YTD order intake and better-than-expected execution. To factor in increased raw material prices, we have lowered our EBITDA margin estimates by 40bp. The stock trades at 9x FY13E EPS and 5.1x FY13E EV/EBITDA. We maintain **Buy** with a target price of INR290 (6x FY13E EV/EBITDA).

Quarterly Performance

Y/E March	(INR Million)								FY11	FY12E
	FY11				FY12					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Income	11,768	10,515	11,667	13,674	12,609	13,220	15,964	16,153	47,497	57,946
Change %	6.0	2.6	9.4	9.2	7.1	25.7	36.8	18.1	6.9	22.0
Total Expenses	10,567	9,458	10,591	12,301	11,407	12,030	14,670	14,624	42,916	52,730
EBITDA	1,201	1,057	1,076	1,374	1,202	1,190	1,294	1,529	4,707	5,215
Change %	7.4	(0.7)	11.0	6.7	0.1	12.6	20.3	11.3	8.7	10.8
As % of sales	10.2	10.1	9.2	10.0	9.5	9.0	8.1	9.5	9.9	9.0
Other Income	9	34	31	90	77	22	10	72	164	180
Interest	281	295	362	369	502	512	550	679	1,308	2,242
Depreciation	390	400	402	416	426	442	487	538	1,608	1,893
PBT	539	396	342	678	351	259	267	384	1,955	1,260
As % of sales	4.6	3.8	2.9	5.0	2.8	2.0	1.7	2.4	4.1	2.2
Change %	25.8	(8.8)	(13.0)	(36.6)	(39.3)	(48.0)	(43.0)	(52.1)	(4.3)	(47.2)
Tax	177	127	110	309	110	80	87	164	722	441
Tax / PBT	32.8	32.1	32.2	45.5	31.4	30.9	32.4	42.8	36.9	35.0
Adjusted PAT	362	269	232	370	241	179	180	220	1,232	819
As % of sales	3.1	2.6	2.0	2.7	1.9	1.4	1.1	1.4	2.6	1.4
Change %	41.1	(3.8)	0.5	(48.3)	(33.6)	(33.5)	(22.3)	(40.6)	0.5	(33.6)

E: MOSL Estimates

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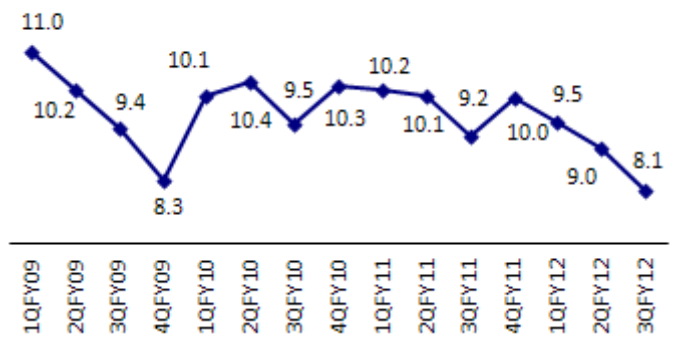
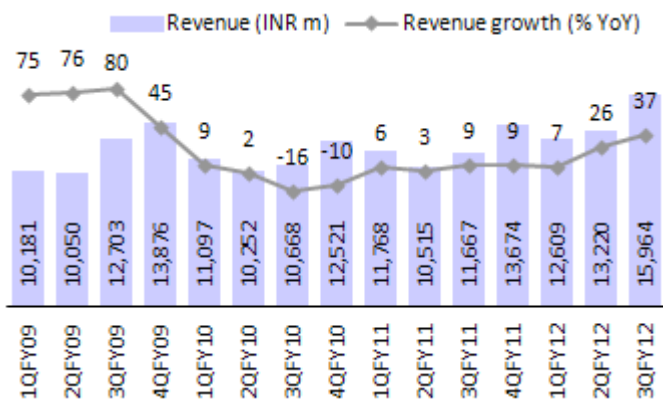
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Revenues up 37% YoY; driven by overseas revenues (up 17% YoY) and domestic revenues (up 40% YoY)

- SINF reported 3QFY12 revenues of INR16b (up 37% YoY), significantly above our estimates of INR13.2b (up 14% YoY). Execution picked up in 3QFY12 both on domestic as well as on overseas business. Domestic revenues grew 40% YoY at INR14.2b, and overseas up 17% YoY at INR1.3b, as countries like Etopia, Qatar and Bangladesh started contributing.
- EBITDA stood in-line at INR1.26b (up 20.3% YoY) v/s our estimates of INR1.26b (up 17% YoY). EBITDA margins stood at 8.1% (down 110bp YoY) v/s our estimate of 9.5% (up 30bp YoY). Management stated that the decline in EBITDA margins was due to the initial start up cost in certain projects. The order book has also ramped up during the last two quarters; so, a lot of new projects are in the initial phase. However, blended margin on the order book is still 10.5%+, which the company expects to achieve in a couple of quarters. PAT was down 22.3% YoY at INR180m v/s our estimate of INR157m (down 32% YoY).
- Net margin stood at 1.1% v/s 2% in 3QFY11, dragged by high net interest cost of INR550m v/s INR362m in 3QFY11. Debt as at end December 2011 stood at INR20.5b v/s INR16b as at March 2011.

Revenue at INR16b up 37% YoY: Execution expected to pick up over FY12

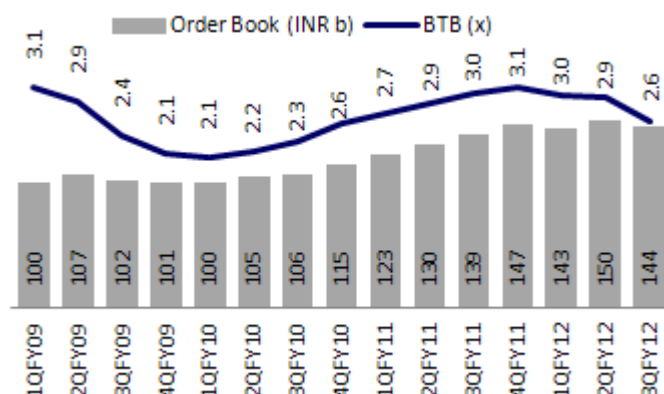
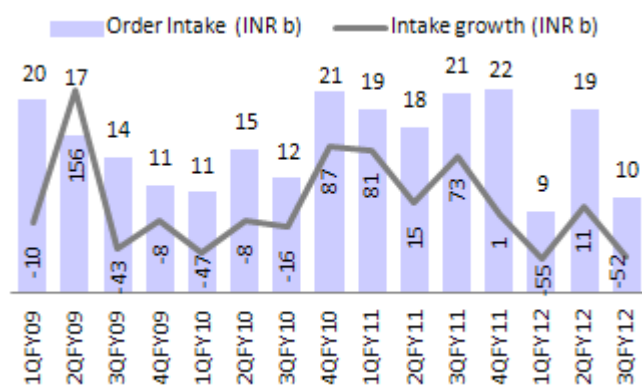
EBITDA Margins (%): Down 110bp YoY ; given the rising material cost



Source: Company/MOSL

3QFY12 order book at INR144b (up 4% YoY, down 4% QoQ)

- Order book remained stable at INR144b up 4% YoY . Order intake during the quarter declined 52% YoY to INR10b.
- Intake during Jan-Feb 2012 stood at INR20.9b. So the total intake in 9MFY12 stood at INR59b v/s INR79b in FY11. Further, SINF is L1 in projects of INR50b.
- Of the current order book, power segment contributes 49% (v/s 24% in Dec-10). Share of buildings also moved up to 30% (v/s 20% in Dec-10); of this, real estate forms 16%, where execution is a concern. Share of industrial declined to 3% (v/s 15% in Dec-10); according to the management, easing interest rate scenario should revive industrial investment.
- We believe that given improved order intake, better project economics and increased focus on execution by, Industrial and power segment, urban infrastructure should be a key contributor to order intake in FY12 and FY13.
- This is also positive for margins and working capital cycle, given that a large part of the private sector projects are on negotiated basis (and not on L1).

3QFY12 intake at INR10b (down 52% YoY)**BTB at 2.6x v/s 3x in 3QFY11**

Source: Company/MOSL

High share of power and buildings in fresh order intake

3QY12	Order intake mix (%)	Order book mix (%)	Revenue mix (%)
Buildings	57	30	10
Bridges	2	1	10
Industrial	2	3	6
Marine	0	0	3
Piling	2	8	7
Power	37	49	37
Roads	0	7	9
Urban Infrastructure	0	0	11
Railways	0	2	7
Total	100	100	100

Source: Company/MOSL

Working capital day's stands at 120 days v/s 138 days in Sep-2011; capex of INR2b in FY12

- As on Dec-2011, Net Working Capital reduced to 120 days v/s 138 days in Sep-2011, largely due to lower inventory. Debtor days were contained at 138 days. Management indicated that the current focus is on managing working capital.
- Debt as at end Dec-2011 stood at INR20.5b v/s INR19b as at Sep-2011 and INR16b as at Mar-2011. Total debt includes working capital loan of INR18b and INR2.9b of equipment loan.

Valuation and view: Increased FY12 and FY13 earnings by 2% each

- We have increased our revenue estimates by 6% for FY12 and 9% for FY13 and PAT estimates by 2% for FY12 and FY13, given the revival in YTD order intake and better than expected execution. To factor in increased raw material prices, we have lowered our EBITDA margin by 40bp.
- We now expect SINF to report PAT of INR819m in FY12 (down 34% YoY) and INR1.2b in FY13 (up 50% YoY), translating into an EPS of INR16.5/sh in FY12 and INR24.6/sh in FY13.
- The stock trades at FY13E P/E of 9x and EV/EBITDA of 5.1x. We maintain **Buy** with target price of INR290 at 6x FY13E EV/EBITDA.

Simplex Infrastructures: an investment profile

Company description

Simplex Infrastructure (SINF) began operations (post takeover by the Mundra family in 1949), with a focus on high end piling contracts and power projects. Over the period, SINF has evolved as a diversified infrastructure player with presence across the infrastructure segments. SINF has over the past few years successfully built pre-qualifications for new verticals like roads, ports (marine), urban infrastructure, civil and industrial construction. Unlike peers, it has ~60% of business from the private clients/PPP and has presence in India and Middle East. Currently, it derives ~35% of the revenues from private clients/PPP, 35% from central Government and 30% from overseas markets.

Key investment arguments

- Improved visibility in terms of order intake, across segments / geographies. Order backlog at the end of December 2011 is INR144b.
- SINF has one of the most diversified businesses with presence across infrastructure sector. It also derives ~10% of the order book from Middle East, reducing risk of over dependence of Indian market. Private sector contributes 65% of order book, which has better payment terms.

Comparative valuations

		Simplex	IVRCL	NCC
P/E (x)	FY12E	13.4	37.0	31.7
	FY13E	9.0	19.0	20.8
P/BV (x)	FY12E	0.9	0.8	0.6
	FY13E	0.9	0.8	0.6
EV/Sales (x)	FY12E	0.5	0.7	0.9
	FY13E	0.5	0.7	0.9
EV/EBITDA (x)	FY12E	6.0	9.1	10.5
	FY13E	5.1	7.5	9.4

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	55.0	55.0	54.7
Domestic Inst	18.8	20.4	20.9
Foreign	14.7	13.0	12.9
Others	11.6	11.6	11.4

Key investment risks

- SINF has order book to bill ratio of 3x, which has improved in past 2-3 quarters. This will impact near term revenue growth

Valuation and View

- The stock trades at FY13E P/E of 9x and EV/EBITDA of 5.1x. We maintain **Buy** with target price of INR290 at 6x FY13E EV/EBITDA.

Sector view

- Order intake from Public and private clients has already witnessed marginal revival. Going forward while the public capex would be strong; the private capex could also revive. Inquiries from Middle East are also expected to improve. We remain positive on the pick up in infrastructure spending and thus the construction sector.

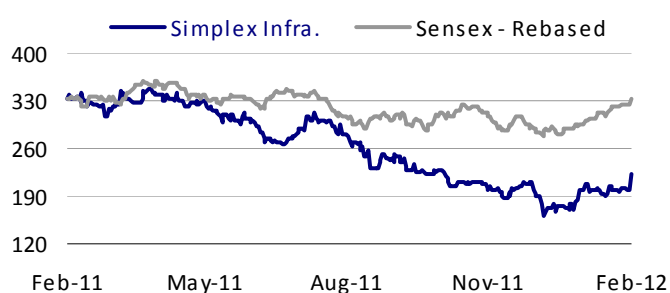
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	16.5	20.9	-21.0
FY13	24.6	26.5	-7.3

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
221	290	31.2	Buy

Stock performance (1 year)



Financials and valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	46,627	44,427	47,497	57,946	67,682	
Change (%)	65.8	-4.7	6.9	22.0	16.8	
Materials Consumed	40,821	38,224	41,115	50,471	58,883	
Other Admin. Exp.	1,849	1,873	1,801	2,260	2,437	
EBITDA	3,956	4,330	4,581	5,215	6,362	
% of Net Sales	8.5	9.7	9.6	9.0	9.4	
Depreciation	1,299	1,534	1,608	1,893	2,042	
Interest	1,418	1,112	1,308	2,242	2,658	
Other Income	447	227	289	180	215	
PBT	1,686	1,911	1,954	1,260	1,878	
Tax	477	685	722	441	657	
Rate (%)	28.3	35.8	37.0	35.0	35.0	
Reported PAT	1,208	1,227	1,232	819	1,221	
Adjusted PAT	1,318	1,227	1,232	819	1,221	
Change (%)	29.1	-6.9	0.4	-33.5	49.1	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Share Capital	99	99	99	99	99	
Reserves	8,923	9,597	10,677	11,421	12,531	
Net Worth	9,023	9,696	10,777	11,520	12,630	
Loans	12,205	13,024	16,606	20,932	22,232	
Deffered Tax Liabilit	579	883	1,381	1,381	1,381	
Capital Employed	21,806	23,604	28,764	33,833	36,243	
Gross Fixed Assets	12,066	12,509	14,764	16,264	17,764	
Less: Depreciation	2,052	2,832	3,715	5,608	7,649	
Net Fixed Assets	10,014	9,677	11,049	10,656	10,115	
Capital WIP	139	187	275	275	275	
Investments	201	277	492	642	792	
Curr. Assets	29,001	30,598	36,847	43,160	49,323	
Inventory	6,761	6,593	7,978	9,208	10,755	
Debtors	16,676	17,928	22,834	26,195	28,742	
Cash & Bank Balance	1,002	873	795	455	555	
Loans & Advances	3,312	3,868	3,833	5,556	6,490	
Other Current Assets	1,250	1,337	1,408	1,746	2,781	
Current Liab. & Prov.	17,548	17,135	19,899	20,900	24,262	
Creditors	17,432	17,020	19,770	20,771	24,133	
Provisions	116	115	129	129	129	
Net Current Assets	11,453	13,463	16,948	22,260	25,062	
Application of Funds	21,806	23,604	28,764	33,833	36,243	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)						
Adjusted EPS	26.6	24.8	24.8	16.5	24.6	
Growth (%)	29.1	-6.9	0.1	-33.5	49.0	
Cash EPS	50.7	55.8	57.2	54.6	65.7	
Book Value	182.4	196.0	217.1	232.0	254.4	
DPS	2.0	1.9	1.9	1.3	1.9	
Payout (incl. Div. Tax.)	9.6	9.4	9.0	9.2	9.0	
Valuation (x)						
P/E (standalone)			8.9	13.4	9.0	
Cash P/E			3.8	4.0	3.4	
EV/EBITDA			5.8	6.0	5.1	
EV/Sales			0.6	0.5	0.5	
Price/Book Value			1.0	0.9	0.9	
Dividend Yield (%)			0.9	0.6	0.9	
Profitability Ratios (%)						
RoE	15.9	13.1	12.0	7.3	10.1	
RoCE	16.7	13.3	12.5	11.2	12.9	
Turnover Ratios						
Debtors (Days)	131	147	175	165	155	
Inventory (Days)	53	54	61	58	58	
Creditors. (Days)	79	99	103	88	88	
Asset Turnover (x)	2.5	2.0	1.8	1.9	1.9	
Leverage Ratio						
Debt/Equity (x)	1.4	1.3	1.5	1.8	1.8	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
PBT before Extraordir	1,795	1,911	1,954	1,260	1,877	
Add : Depreciation	1,299	1,534	1,608	1,893	2,042	
Interest	1,418	1,112	1,308	2,242	2,658	
Less : Direct Taxes Pa	477	685	722	441	657	
(Inc)/Dec in WC	-2,923	-2,140	-3,563	-5,652	-2,701	
CF from Operations	1,002	1,733	584	-698	3,219	
(Inc)/Dec in FA	-4,914	-1,244	-3,069	-1,500	-1,500	
(Pur)/Sale of Investm	-102	-76	-215	-150	-150	
CF from Investments	-5,016	-1,321	-3,283	-1,650	-1,650	
(Inc)/Dec in Networkl	607	-133	457	0	0	
(Inc)/Dec in Debt	4,711	819	3,582	4,326	1,300	
Less : Interest Paid	1,418	1,112	1,308	2,242	2,658	
Dividend Paid	116	115	110	76	110	
CF from Fin. Activity	3,784	-541	2,621	2,008	-1,469	
Inc/Dec of Cash	-230	-129	-78	-340	101	
Add: Beginning Balai	1,232	1,002	873	795	455	
Closing Balance	1,002	873	795	455	555	

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Simplex Infrastructure

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