

Infomerics Valuation and Rating Pvt Ltd

Press Release

Simplex Infrastructures Ltd

September 22, 2017

Rating

Instrument	Amount	Rating	Rating Action
Commercial Paper (earmarked out of tied up fund based working capital bank limit)	Rs.650 Crores	IVR A1+ (IVR A one plus)	Reaffirmed with limits increased from Rs.250 crores to Rs.650 crores.

Details of Instrument are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd. has assigned IVR A1+ (IVR A one plus) to the Rs.650 crores Commercial Paper (earmarked out of tied up fund based working capital bank limit) programme of Simplex Infrastructures Ltd.

Detailed Rationale

The aforesaid ratings derive comfort from company's long & established presence in the construction sector, highly experienced managerial & technical team, sound engineering acumen & technical tie-ups, presence across all construction vertical with specialisation in pilling, track record of completion of a large number of prestigious projects, strong & diversified order book reflecting satisfactory medium term revenue visibility, reputed clientele, comfortable EBITDA margin, given the industry segment the company operates in an comfortable long-term debt equity ratio & other debt protection matrices. However, the rating strengths are partially offset by volatile input prices, working capital intensity leading to high overall gearing and highly fragmented & competitive nature of the construction sector with significant price war. Ability to manage working capital requirement effectively, optimising cost of borrowings and containment of construction expenses are the key rating sensitivities.

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List of Key Rating Drivers

- ✓ Long & established presence in the construction sector.
- ✓ Highly experienced managerial & technical team.
- ✓ Sound engineering acumen & technical tie-ups.
- ✓ Presence across all construction verticals with specialisation in piling.
- ✓ Track record of completion of large number of prestigious projects.
- ✓ Strong & diversified order book reflecting satisfactory medium term revenue visibility.
- ✓ Reputed clientele.
- ✓ Comfortable EBITDA margin, given the industry segment the company operates in.
- ✓ Comfortable long-term debt equity ratio & other debt protection matrices
- ✓ Volatile input prices.
- ✓ Working capital intensity leading to high overall gearing
- ✓ Highly fragmented & competitive nature of the construction sector with significant price war.

Detailed Description of Key Rating Drivers

Long & established presence in the construction sector

Having incorporated in 1924, the current promoter family has been managing the company since 1947. Since inception, the company has completed a large number of construction projects and has positioned itself as one of the major players in the construction sector of the country and well withstood the storm in the domestic infrastructure sector in the last few years. Over the years, it also made significant presence in many Asian countries. The current promoter family are well known in civil construction business.

Highly experienced managerial & technical team

The management team of the company includes highly qualified & experienced professionals having rich credentials in construction sector. The company has seven major divisions, each headed by well qualified and experienced personnel. The promoters are solely focused on this business for almost seven decades.

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Sound engineering acumen & technical tie-ups

The company has access to latest technology by virtue of its tie-ups with technocrats, consultants, architects and engineers in a number of areas which has supplemented it to acquire strong engineering acumen. The company has also absorbed foreign technology in respect of slip form system, cooling tower, soil improvement, foundation engineering, commercial buildings, road construction, low cost housing, shuttering system and geopier soil reinforcement. It has an extensive designing and drawing department to cater to its regular requirement.

Presence across all construction verticals with specialisation in piling

Simplex is one of most diversified players in infrastructure sector with presence across all construction verticals. This is a part of its overall strategy towards risk mitigation to avoid over-dependence on any one vertical for revenue. It has presence across ground engineering, industrial construction, building & housing, power plant, power transmission, marine ports, roads, railways, bridges, elevated road, rail corridors & urban airports, metro rails and so on. The company has developed a niche for itself in concrete piling for decades and is the pioneer in the 'cast-in-situ' driven pile foundations in India and South East Asia.

Track record of completion of a large number of prestigious projects

The company has, till date, executed over 2900 prestigious projects across the country & overseas encompassing varied segments. It receives repeat orders from reputed and large clientele from domestic as well as overseas market due to its credentials and construction capabilities.

Strong & diversified order book reflecting satisfactory medium term revenue visibility

The company had a strong order book position (Rs.16518.0 crs. as on March 31, 2017, which was about three times of its FY17 turnover. With diversified orders across 250 contracts, nine verticals and nine countries, order inflow for FY17 was Rs.8117.3 crs. The company has a large fleet of owned construction equipment, giving it a competitive edge in terms of cost of construction and hence, in pricing. Its top 10 orders constitute about 33% of the aggregate order book, indicating diversified order book profile. Infomerics feels that Simplex with strong order book position is likely to report a decent revenue growth in the short-medium term, on the back of its better execution capability.

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Reputed clientele

Simplex's client mix is diverse and comprises many well-known private and public sector corporates across varied manufacturing sectors, domestic & international conglomerates and different state governments. Simplex receives repeat orders from reputed and large clientele from domestic as well as from overseas market.

Comfortable EBIDTA margin vis-à-vis industry segment the company operates in

Simplex posted an EBIDTA margin of 12.3% in FY17, which increased from 11.6% in FY16. The margin levels are comfortable considering the competitive nature of the industry that the company operates in.

Comfortable long-term debt equity ratio & other debt protection matrices

The long-term debt equity ratio and debt coverage indicators indicated by Long Term Debt / EBIDTA are generally comfortable which are matters of comfort. However, the working capital intensity arising out of execution of multiple projects at varied locations has led to overall gearing being on the higher side.

Volatile input prices

Major raw materials used in civil construction activities are steel and cement. While the input prices being generally volatile and having direct linkage with state of the economy, the cost of raw materials, as a percentage of gross billing, remained at the same level during the last two years on account of optimised use of raw materials and the escalation clause associated with most of the contracts .

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in mushrooming increase in the number of players. While there has been a consolidation in a way in view of adverse sentiments prevailed in the sector, the instances of significant price cut by few players is a matter of serious concern for the users with respect to quality of output.

Analytical Approach: Standalone

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Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation

About the Company

Simplex Infrastructure Ltd was incorporated and commenced business in 1924. It was established by Mr. H. P. Lancaster, an Englishman, who invented the piling system which came to be known as the 'Simplex' system of piling, and came under Indian management in 1947, when the Mundhra family of Kolkata took over the company. The promoters are well known in civil construction business.

Simplex is one of the largest players in the domestic construction sector providing services encompassing the whole gamut of civil & structural construction activities including turnkey projects comprising layout plan, detailed civil & engineering design, architecture, structural construction and complete execution & commissioning. Simplex's presence in BOT segment is however very negligible, given its size. The company is the pioneer in the 'cast-in-situ' driven pile foundation in India. It also has a modest overseas presence, particularly in the Middle East countries.

Financial Performance

The company has provided audited financial statement for FY16 & FY17 in line with the requirement of IND AS. Brief financials are given below.

(Rs. crores)		
For the year ended / Rs. Crs	31-03-2016	31-03-2017
Total Operating Income	5901.6	5605.2
EBITDA	684.3	688.7
Depreciation	203.6	197.8
Interest	428.6	445.4
Reported PAT*	106.1	120.3
Total Debt	3502.2	3462.4
Long Term Debt	694.8	674.3
Tangible Net worth	1418.5	1528.3
Total Capital Employed	5570.8	5688.2
Ratios		

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<u>Growth Ratios (%)</u>		
a. Increase in Total Income	NA	-5.02
b. Increase in EBIDTA	NA	0.64
<u>Profitability Ratios (%)</u>		
a. EBIDTA Margin	11.60	12.29
b. Return On Capital Employed - Operating	8.89	8.77
c. Return On Capital Employed - Total	8.85	8.72
d. Return on Networth	3.72	2.21
e. Avg. cost of Borrowings	12.54	12.79
<u>Solvency Ratios</u>		
Long Term		
a. Long Term Debt Equity ratio	0.49	0.44
b. Overall Gearing ratio	2.47	2.27
c. Interest Coverage (times)	1.60	1.55
d. Long Term Debt / EBIDTA	1.02	0.98
Short Term		
a. Current Ratio	1.20	1.22
b. Quick Ratio	1.06	1.09
<u>Turnover Ratios</u>		
a. Working Cap Turnover Ratio	1.59	1.41
b. Avg. Collection Period (days)	81	92
c. Avg. unbilled revenue (days)	170	202
e. Average Raw Material, stores and spares holding period (days)	114	129
c. Average WIP (days)	6	6
f. Average Creditors (days)	142	165
g. Operating cycle	229	263

*Includes prior period income of Rs.48.06 crores and Rs.18.43 crores in FY17 and FY16 respectively.

For the first quarter ended June 30, 2017 the company reported total operating income of Rs.1511.9 crores and PAT of Rs.28.7 crores.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years: As per Annexure 2

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Instrument

Name of Instrument	Date of issuance	Coupon Rate/ IRR	Maturity Date	Size of issuance (Rs Crores)	Rating Assigned/ Outlook
Commercial Paper (earmarked out of tied up fund based working capital bank limit)	-	-	-	650	IVR A1+ (IVR A one plus)

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Annexure 2: Rating History

Name of Instrument	Current Ratings			Rating History		
	Type	Amount Outstanding (Rs. Crores)	Rating	Date & Rating Assigned in 2016-17	Date & Rating Assigned in 2015-16	Date & Rating Assigned in 2014-15
Commercial Paper (earmarked out of tied up fund based working capital bank limit)	Short Term	650	IVR A1+ (IVR A One plus)	IVR A1+ (IVR A One plus) (August 22, 2016)	Nil	Nil
Short Term Loan	Short term	75 (including present outstanding – 50)	IVR A1 (IVR A one)	Nil	Nil	Nil