

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Simplex Infrastructures Limited

October 22, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Commercial Paper	650.00	IVR A1+ (IVR A One Plus)*	Reaffirmed
Short Term Bank Facilities	75.00	IVR A1 (IVR A One)	Reaffirmed
Total	725.00		

*to be earmarked out of tied-up fund based working capital limits.

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating derives comfort from its established presence in the construction sector, experienced management, sound engineering acumen, presence across all verticals of construction, track record of project completion, strong and diversified order book, reputed clientele and comfortable EBIDTA margins. Infusion of equity of significant amount also supports the rating. However, the rating is constrained by delay in recovery of certain old receivables, high working capital intensive operations, volatile input prices, moderate overall gearing, low net margin and competitive nature of the construction sector with significant price war. Ability to de-leverage, optimisation of working capital, recovery of old receivables and timely execution of projects on hand is the key rating sensitivities.

List of Key Rating Drivers

- Established presence in the construction sector
- Experienced management
- Sound engineering acumen
- Presence across all verticals in construction
- Track record of project completion
- Strong & diversified order book reflecting satisfactory medium term revenue visibility
- Reputed clientele
- Comfortable EBIDTA margin vis-à-vis industry segment the company operates in
- Infusion of equity

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- Volatile input prices
- High working capital intensive operations
- Moderate overall gearing
- Low net margin
- Delay in recovery of certain old receivables
- Highly fragmented & competitive nature of the construction sector with significant price war

Detailed Description of Key Rating Drivers

Key Rating Strengths

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 with credit 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 recent past. Over the years, its activities have crossed the domestic boundary and made significant presence in many Asian countries. The current promoter family is well known in civil construction business.

Highly experienced managerial & technical team

The management team of the company includes highly qualified & experienced professionals with many experienced engineers having rich credentials in construction sector. The company has seven major divisions, each headed by well qualified and experienced personnel.

Sound engineering acumen & technical tie-ups

The company has access to latest technology on account 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

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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 ensuring that the company is not overly dependent on any one vertical for its revenue. It has presence across all construction verticals such as ground engineering, industrial construction, building & housing, power plant, power transmission, marine ports, roads, railways, bridges, elevated road, rail corridors & urban airports and metro rails. 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 market encompassing varied business segments. It receives repeat orders from reputed and large clientele from domestic as well as overseas market recognizing its credentials and construction capabilities.

Strong & diversified order book reflecting satisfactory medium term revenue visibility

The company has a strong order book position (Rs.17803 crore. as on June 30, 2018) .With diversified orders across 250 contracts, nine verticals and nine countries, order inflow during FY18 was Rs.7613 crore. 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.

Reputed clientele

Simplex’s client mix is diverse and comprises many well-known private and public sector corporates across diverse manufacturing sectors, domestic and international conglomerates and different state governments. Simplex has repeat orders from reputed and large clientele from domestic as well as overseas market testifying its construction capabilities.

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

Simplex posted an EBIDTA margin in the range of 11-12% during the last three years. The margin level appears to be comfortable considering the competitive nature of the industry that the company operates in.

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Infusion of equity in FY19

Post March 31, 2018, the company has infused equity of Rs.402 crore through QIP route. The company has further issued warrants of Rs.200 crore to its promoters; of which Rs.50 crore has been brought in. Overall, fresh fund to the tune of Rs.452 crore has been brought in the current year. The management has indicated that another Rs.75 crore will be brought in the current year itself and the balance in FY20.

Key Rating Weaknesses

Volatile input prices

Major contracts awarded in the trade are fixed rate contracts while the raw materials used in civil construction activities are steel and cement which are usually sourced from large players. 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 most of the contracts having escalation clause.

High working capital intensive operations

Construction business, by its nature, is working capital intensive and this is more so for large players executing multiple EPC contracts projects across varied locations. The total capital employed to revenue is at 0.91x in FY18. The working capital turnover is low at 1.43x in FY18.

Moderate overall gearing

The company has a comfortable long-term debt-equity ratio at 0.54 as on March 31, 2018 (though bit deteriorated from 0.44 as on the previous account closing date). Overall gearing, though on the higher side being at 2.4 as on March 31, 2018, improved from 2.5 as on March 31, 2017. In order to improve its capital structure and to reduce its overall debt level in the context of increasing scale of operation, the company has already brought in fresh equity/warrant to the extent of Rs.452 crore in the current year and another Rs.75 crore is expected to come in the current year. Given the above, the long-term debt-equity ratio and the overall gearing are projected to be much improved in the next three years.

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Low net margin

The PAT margin has generally been low, despite comfortable EBIDTA margin, due to high level of capital charges (depreciation & interest). However, it improved from 0.58% in FY17 to 1.60 in FY18.

Delay in recovery of certain old receivables

Top 10 debtors more than 6 months were at Rs.300 crore and more than one year were Rs.250 crore as on March 31, 2018. However, Simplex has recovered Rs.250 crore during the current year (mentioned in the Q1FY18 limited review working results submitted to Stock Exchanges) thereby reduced the old outstanding significantly. Recovery of certain billed amount (receivable from Abhijeet Infrastructure group) has been commented as doubtful by the Auditors. Overall, the average collection period being in the range of 80-85 days during the last three years (FY16-18) are in line with industry standard.

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 the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the sustenance and healthy growth of the industry.

Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Simplex Infrastructures Ltd. was established by Mr. H. P. Lancaster, an Englishman, in 1924. It was he who invented the piling system which became synonymous with the name of the company and became known as the 'Simplex' system of piling. Simplex was subsequently taken over by the Mundhra family of Kolkata, the current promoters, in 1947. The current promoters are well known in civil construction for 70 years. The current promoters are solely focused on this business for almost seven decades. Currently, Shri A. D. Mundhra and Shri Rajiv Mundhra, the third generation entrepreneurs, are looking after the day-to-day affairs of

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the company. 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.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	5605.2	5754.6
EBITDA	688.7	668.9
PAT	32.5	94.1
Total Debt	3462.4	3495
Tangible Net worth	1528.3	1597.3
EBITDA Margin (%)	12.29	11.62
PAT Margin (%)	0.58	1.60
Overall Gearing Ratio (x)	2.50	2.40

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Commercial Paper*	Short Term	650.00	IVR A1+	IVR A1+ (Sep 22, 2017)	IVR A1+ (Aug 22, 2016)	-
2.	Short Term Fund Based Limits	Short Term	75.00	IVR A1	IVR A1 (July 31, 2017)	-	-

*to be earmarked out of tied up fund based working capital limits

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.

Name and Contact Details of the Rating Analyst:

Infomerics Valuation And Rating Pvt. Ltd.

Name: Mr. Deepayan Ghosh

Tel: (033) 46022266

Email: deepayanghosh@infomerics.com

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 Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Commercial Paper*	-	-	-	650.00	IVR A1+
Short Term Bank Facilities	-	-	-	75.00	IVR A1

*to be earmarked out of tied up fund based working capital limits