

Simplex Infrastructure

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Execution and claim recovery the key monitorables

- SINF's sales grew 18.7% yoy to Rs14.8bn in 2QFY19, ahead of our estimate on a pick-up in execution in its healthy order book of Rs168bn. SINF's PAT came in at Rs244mn, led by strong execution and lower depreciation expenses.
- The company has secured orders worth Rs4.3bn, taking the order book to ~Rs168bn, which translates into an order book-to-sales ratio of 2.8x TTM revenues.
- Of the planned recovery claims of Rs8bn in FY19, the company has made a recovery of Rs2.3bn until now, and expects to recover Rs6.7bn in 2HFY19.
- Given the subdued 1HFY19 performance, we continue to maintain our FY19 estimates vs. management's FY19 revenue growth guidance of 40%. Due to a sharp correction in the stock price, we are upgrading our rating to a Buy from Hold, with a revised TP of 312 (Rs473 earlier) based on 10x FY20E EPS.

Execution shows signs of improvement; operating margin intact

SINF's sales grew 18.7% yoy to Rs14.8bn in 2QFY19, ahead of our estimate on a pick-up in the execution in its healthy order book of Rs168bn. EBITDA came in at Rs1,760mn, registering a marginal growth of 3.8%, with EBITDAM coming in at 11.9% (Emkay est: 11.5%). SINF's PAT was Rs244mn, better than our and Street estimate of Rs160mn, led by strong execution and lower depreciation expenses (down 7% yoy), partially offset by lower OI (down 29.8% yoy).

Order book at Rs168bn; execution and claim recovery key monitorables

In 2QFY19, the company has secured orders worth Rs4.3bn, taking the order book to ~Rs168bn, which translates into an order book-to-sales ratio of 2.8x TTM revenues. Given its healthy order book, we believe that the execution of its key projects along with its focus on improving the balance sheet would be the key monitorables for the stock. Of the planned recovery claims of Rs8bn in FY19, the company has made a recovery of Rs2.3bn until now, and further expects to recover Rs6.7bn in 2HFY19. On account of a rise in working capital cycle (263 days in 2QFY19 vs. 241 days in 1QFY19) and an increase in capex, the company's standalone debt increased by ~Rs4bn to Rs35.7bn in 2QFY19.

Maintain estimates; sharp stock correction warrants a Buy

Given the subdued 1HFY19 performance, we continue to maintain our estimates of FY19 vs. management's revenue growth guidance of 40% for FY19. We see EPC target multiples potentially at risk in the wake of the current liquidity crunch, rising interest rates, and an overall contraction in broader market multiples, leading us to cut our target multiple by 12%. Due to a sharp correction in the stock price, we are upgrading our rating to a Buy from Hold, with a revised TP of 312 (Rs473 earlier) based on 10x FY20E EPS. At the current market price, the stock trades at a P/E of 10.4x/7.5x its FY19E/FY20E EPS

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	59,046	56,075	57,662	65,622	75,453
EBITDA	6,822	6,887	6,689	7,428	8,605
EBITDA Margin (%)	11.6	12.3	11.6	11.3	11.4
APAT	1,061	1,203	1,170	1,278	1,772
EPS (Rs)	18.7	21.2	20.6	22.5	31.2
EPS (% chg)	70.0	13.3	(2.8)	9.3	38.7
ROE (%)	7.4	8.1	7.4	6.7	7.9
P/E (x)	12.5	11.0	11.3	10.4	7.5
EV/EBITDA (x)	6.9	6.7	7.1	6.1	5.3
P/BV (x)	0.9	0.9	0.8	0.6	0.6

Source: Company, Emkay Research

CMP Rs 234 as of (November 16, 2018)	Target Price Rs 312 (▼) 12 months
Rating BUY (▲)	Upside 33.5 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	-/-
Target Price change (%)	(34)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	FY19E	FY20E
Emkay	22.5	31.2
Consensus	26.9	41.6
Mean Consensus TP (12M)	Rs 503	

Stock Details

Bloomberg Code	SINF IN
Face Value (Rs)	2
Shares outstanding (mn)	57
52 Week H/L	655 / 187
M Cap (Rs bn/USD bn)	13 / 0.18
Daily Avg Volume (nos.)	42,035
Daily Avg Turnover (US\$ mn)	0.2

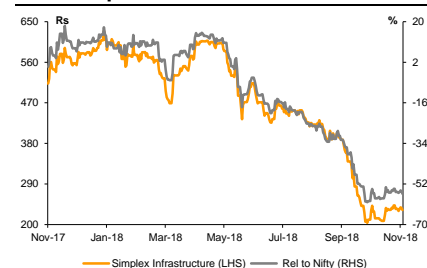
Shareholding Pattern Sep '18

Promoters	49.3%
FIIIs	9.6%
DIIIs	20.9%
Public and Others	20.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(45)	(61)	(53)
Rel. to Nifty	-	(41)	(60)	(55)

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs. Estimates

Rs mn	Actual	Estimate		% variation	
		Emkay	Consensus	Emkay	Consensus
Sales	14790.9	13780.6	14354.0	7.3	3.0
EBITDA	1760.1	1515.9	1619.0	16.1	8.7
EBITDA margin %	11.9	11.5	11.3	40 bps	62 bps
Adj.Pat	244.3	157.2	162.0	55.4	50.8

Source: Company, Bloomberg, Emkay Research

Exhibit 2: Standalone Quarterly Snapshot

Rs mn	Q2FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)	2HFY19	2HFY18	YoY (%)
Revenue	12,460.4	15,842.3	14,790.9	18.7	-6.6	30,633.2	27,579.3	11.1
Total Revenues	12,460.4	15,842.3	14,790.9	18.7	-6.6	30,633.2	27,579.3	11.1
Expenditure	10764.8	14072.1	13030.8	21.1	-7.4	27102.9	24155.4	12.2
as % of sales	86.4	88.8	88.1			88.5	87.6	
Consumption of RM	3680.8	5755.3	4826.3	31.1	-16.1	10581.6	8888.5	19.0
as % of sales	29.5	36.3	32.6			34.5	32.2	
Employee Cost	1404.0	1252.7	1237.5	-11.9	-1.2	2490.2	2806.6	-11.3
as % of sales	11.3	7.9	8.4			8.1	10.2	
Other expenditure	5680.0	7064.1	6967.0	22.7	-1.4	14031.1	12460.3	12.6
as % of sales	45.6	44.6	47.1			45.8	45.2	
EBITDA	1695.6	1770.2	1760.1	3.8	-0.6	3530.3	3423.9	3.1
Depreciation	470.1	451.5	437.5	-6.9	-3.1	889.0	948.7	-6.3
EBIT	1225.5	1318.7	1322.6	7.9	0.3	2641.3	2475.2	6.7
Other Income	294.3	296.4	206.6	-29.8	-30.3	503.0	541.1	-7.0
Interest	1175.7	1210.8	1181.8	0.5	-2.4	2392.6	2308.1	3.7
PBT	344.1	404.3	347.4	1.0	-14.1	751.7	708.2	6.1
Total Tax	66.4	121.6	103.1	55.3	-15.2	224.7	143.2	56.9
Adjusted PAT	277.7	282.7	244.3	-12.0	-13.6	527.0	565.0	-6.7
(Profit)/loss from JV's/Ass/MI				0.0	0.0			0.0
PAT after MI	277.7	282.7	244.3	-12.0	-13.6	527.0	565.0	-6.7
Extra ordinary items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported PAT	277.7	282.7	244.3	-12.0	-13.6	527.0	565.0	-6.7
Adjusted EPS	4.9	5.0	4.3	-12.0	-13.6	9.3	10.0	-6.7
Margins (%)				bps	bps			bps
EBIDTA	13.6	11.2	11.9	-170.8	72.6	11.5	12.4	-89.0
EBIT	9.8	8.3	8.9	-89.3	61.8	8.6	9.0	-35.3
EBT	2.8	2.6	2.3	-41.3	-20.3	2.5	2.6	-11.4
PAT	2.2	1.8	1.7	-57.7	-13.3	1.7	2.0	-32.8
Effective Tax rate	19.3	30.1	29.7	1038.1	-39.9	29.9	20.2	967.2

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	59,046	56,075	57,662	65,622	75,453
Expenditure	52,224	49,188	50,973	58,194	66,848
EBITDA	6,822	6,887	6,689	7,428	8,605
Depreciation	2,036	1,978	1,834	2,026	2,159
EBIT	4,787	4,909	4,855	5,402	6,445
Other Income	981	891	1,363	1,444	1,509
Interest expenses	4,286	4,454	4,709	4,910	5,269
PBT	1,482	1,346	1,509	1,936	2,685
Tax	421	143	340	658	913
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,061	1,203	1,170	1,278	1,772
Adjusted PAT	1,061	1,203	1,170	1,278	1,772

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	99	99	99	113	113
Reserves & surplus	14,151	15,204	16,246	21,502	23,245
Net worth	14,250	15,303	16,346	21,616	23,358
Minority Interest	0	0	0	0	0
Loan Funds	33,991	33,254	35,369	36,369	37,369
Net deferred tax liability	798	1,064	1,207	1,207	1,207
Total Liabilities	49,039	49,621	52,922	59,192	61,934
Net block	12,811	11,730	10,977	9,952	8,792
Investment	1,281	1,339	1,341	1,441	1,541
Current Assets	64,941	70,993	79,727	90,074	98,435
Cash & bank balance	233	329	1,049	3,961	5,004
Other Current Assets	40,522	43,101	51,069	53,810	56,590
Current liabilities & Provision	30,117	34,555	39,222	42,373	46,932
Net current assets	34,824	36,438	40,505	47,701	51,503
Misc. exp	0	0	0	0	0
Total Assets	49,039	49,621	52,922	59,192	61,934

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,482	1,346	1,509	1,936	2,685
Other Non-Cash items	(776)	(460)	(661)	0	0
Chg in working cap	(2,952)	(752)	(2,549)	(4,285)	(2,759)
Operating Cashflow	4,079	6,405	4,263	3,929	6,442
Capital expenditure	(2,085)	(815)	(1,059)	(1,000)	(1,000)
Free Cash Flow	1,994	5,590	3,204	2,929	5,442
Investments	11	(88)	22	(100)	(100)
Other Investing Cash Flow	358	(267)	(534)	0	0
Investing Cashflow	(1,716)	(1,170)	(1,571)	(1,100)	(1,100)
Equity Capital Raised	0	0	0	14	0
Loans Taken / (Repaid)	1,753	(688)	2,919	1,000	1,000
Dividend paid (incl tax)	(30)	(30)	(30)	(30)	(30)
Other Financing Cash Flow	0	(91)	0	4,008	0
Financing Cashflow	(2,455)	(5,237)	(1,983)	83	(4,299)
Net chg in cash	(92)	(1)	709	2,911	1,043
Opening cash position	295	233	295	1,049	3,961
Closing cash position	233	329	1,049	3,961	5,004

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	11.6	12.3	11.6	11.3	11.4
EBIT Margin	8.1	8.8	8.4	8.2	8.5
Effective Tax Rate	28.4	10.6	22.5	34.0	34.0
Net Margin	1.8	2.1	2.0	1.9	2.3
ROCE	11.8	11.8	12.1	12.2	13.1
ROE	7.4	8.1	7.4	6.7	7.9
RoIC	10.2	10.3	9.9	10.4	11.8

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	18.7	21.2	20.6	22.5	31.2
CEPS	54.6	56.1	53.0	58.2	69.3
BVPS	251.2	269.8	288.2	381.1	411.8
DPS	0.1	0.1	0.1	0.1	0.1

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	12.5	11.0	11.3	10.4	7.5
P/CEPS	4.4	4.3	4.5	4.1	3.4
P/BV	0.9	0.9	0.8	0.6	0.6
EV / Sales	0.8	0.8	0.8	0.7	0.6
EV / EBITDA	6.9	6.7	7.1	6.1	5.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	2.4	2.2	2.1	1.5	1.4
Net Debt/EBIDTA	4.9	4.8	5.1	4.4	3.8
Working Cap Cycle (days)	213.8	235.0	249.8	243.3	224.9

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	5.8	(5.0)	2.8	13.8	15.0
EBITDA	21.4	0.9	(2.9)	11.0	15.8
EBIT	12.6	2.6	(1.1)	11.3	19.3
PAT	70.0	13.3	(2.8)	9.3	38.7

Quarterly (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Revenue	12,460	13,601	16,482	15,842	14,791
EBITDA	1,696	1,684	1,587	1,770	1,760
EBITDA Margin (%)	13.6	12.4	9.6	11.2	11.9
PAT	278	311	294	283	244
EPS (Rs)	4.9	5.5	5.2	5.0	4.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	56.3	56.3	56.3	49.3	49.3
FIs	1.4	1.5	2.0	9.6	9.6
DIs	19.7	18.8	18.6	21.1	20.9
Public and Others	22.6	23.4	23.0	20.0	20.1

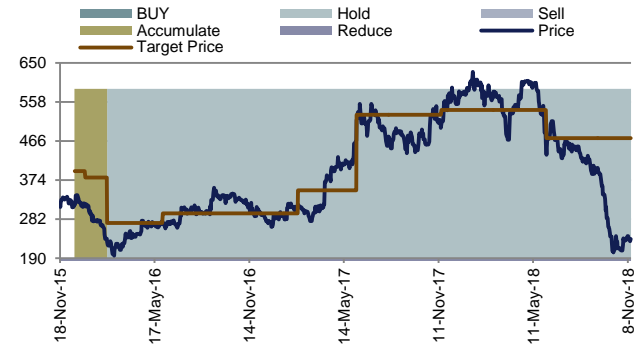
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Aug-18	418	473	12m	Hold	Viral Shah
5-Jun-18	434	473	12m	Hold	Viral Shah
16-Nov-17	507	539	12m	Hold	Viral Shah
18-Aug-17	487	528	12m	Hold	Adhidev Chattopadhyay
7-Jun-17	515	528	12m	Hold	Adhidev Chattopadhyay
15-Feb-17	311	350	12m	Hold	Adhidev Chattopadhyay
1-Jun-16	275	296	12m	Hold	Nitin Arora
18-May-16	269	273	12m	Hold	Nitin Arora
20-Apr-16	250	273	12m	Hold	Nitin Arora
14-Mar-16	222	273	12m	Hold	Nitin Arora
16-Feb-16	228	273	12m	Hold	Nitin Arora
15-Jan-16	295	380	12m	Accumulate	Nitin Arora
5-Jan-16	313	380	12m	Accumulate	Nitin Arora
16-Dec-15	316	395	12m	Accumulate	Nitin Arora
17-Nov-15	318	395	12m	Accumulate	Nitin Arora
17-Nov-15	318	395	12m	Accumulate	Nitin Arora

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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A handwritten signature in black ink that reads "Viral K. Shah". The signature is written in a cursive style and is underlined with a single horizontal line.

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