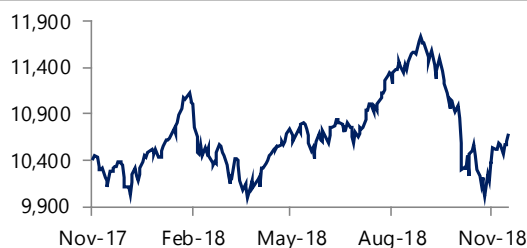


NOVEMBER 21, 2018

	20-Nov	% Chg			
		1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	35,475	(0.8)	3.4	(7.3)	
NIFTY Index	10,656	(1.0)	3.4	(7.8)	
NSEBANK Index	26,113	(0.7)	4.1	(7.6)	
NIFTY 500 Index	8,960	(1.0)	3.7	(8.9)	
CNXMcap Index	17,420	(1.0)	5.5	(11.1)	
BSESMCAP Index	14,406	(0.9)	2.3	(14.7)	
<b>World Indices</b>					
Dow Jones	24,466	(2.2)	(3.8)	(5.3)	
Nasdaq	6,909	(1.7)	(7.3)	(12.1)	
FTSE	6,948	(0.8)	(1.4)	(8.2)	
NIKKEI	21,583	(1.1)	(4.8)	(3.5)	
Hangseng	21,583	(1.1)	(4.8)	(3.5)	
Shanghai	25,840	(2.0)	0.5	(7.4)	
<b>Value traded (Rs cr)</b>					
	20-Nov	% Chg Day			
Cash BSE	2,241	(8.9)			
Cash NSE	27,001	(0.8)			
Derivatives	659,232	29.7			
<b>Net inflows (Rs cr)</b>					
	19-Nov	MTD	YTD		
FII	1,054	5,238	(37,447)		
Mutual Fund	65	75	112,377		
<b>Nifty Gainers &amp; Losers</b>					
	Price	Chg	Vol		
20-Nov	(Rs)	(%)	(mn)		
<b>Gainers</b>					
Gail India	344	2.8	6.2		
Adani Ports	355	1.3	5.8		
Indusind Bank	1,558	1.3	2.7		
<b>Losers</b>					
Yes Bank Ltd	192	(6.2)	77.4		
Hindalco Ind	222	(5.3)	14.8		
Indiabulls Housing	707	(3.7)	12.1		
<b>Advances / Declines (BSE)</b>					
20-Nov	A	B	T	Total	% total
Advances	88	287	40	415	100
Declines	343	734	67	1,144	276
Unchanged	1	27	10	38	9
<b>Commodity</b>					
	20-Nov	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	63.2	1.1	(20.7)	(12.9)	
Gold (US\$/OZ)	1,221.6	(0.2)	(0.4)	2.1	
Silver (US\$/OZ)	14.3	(0.8)	(1.8)	(3.1)	
<b>Debt / forex market</b>					
	20-Nov	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.8	7.8	7.9	7.8	
Re/US\$	71.5	71.7	73.6	69.8	

## Nifty



Source: Bloomberg

## News Highlights

- ▶ **HDFC Bank:** The bank acquired 4 percent equity stake in Clearing Corporation of India from Bank of Baroda for Rs 124 crore. It is proposed to increase the stake in CCIL from the current 5 percent to 9 percent from an investment perspective. (ET)
- ▶ **Excel Industries:** CRISIL upgraded rating on long term bank loan facilities of the company to A+/ Stable from A/Stable and reaffirmed rating on short term bank loan facilities at CRISIL A1. The rating on fixed deposits has been withdrawn as the company has discontinued acceptance and renewal of the fixed deposits. (BL)
- ▶ **NBCC:** Company has submitted the Expression of Interest (EoI) for submitting Resolution Plan for Jaypee Infratech (JIL) and the company has been provisionally shortlisted by Resolution Professional of JIL as Prospective Resolution Applicant. (ET)
- ▶ **Suzlon Energy:** As first part of the transaction, Canadian Solar disposal acquired 49 percent stake in company's subsidiaries Amun and Avighna respectively for a combined cash consideration of Rs 264.2 mn. And as second part of the transaction, Canadian Solar acquired balance 51 percent stake in Amun and Avighna respectively for a combined cash consideration of Rs 281.1 mn. (BSE)
- ▶ **IL&FS Engineering:** Company filed application to SEBI requesting extension of time to file financial results (BQ).
- ▶ **Dr Reddy's Laboratories:** Indivior lost an appeals court ruling that opened the door for the company to begin sales of a generic version of the opioid treatment Suboxone Film. Dr. Reddy's had received regulatory approval to sell a generic version of the drug before it was shut down by a federal judge who said it had to wait for a final decision in a patent-infringement case. (BSE)
- ▶ **Minda Corporation** reduced its stake in its joint venture with Japan based Furukawa Group from 51 percent to 25 percent. (BSE)
- ▶ **NTPC** signed an accord with seven electric vehicle aggregators. The company says accord is for developing charging infrastructure. (Bloomberg)
- ▶ In bulk deal reported **Fortis Healthcare**, UBS Asia acquired 1 crore shares or 1.93 percent equity at Rs 147.05 each. York Asian Opportunities Fund sold 1 crore shares or 1.93 percent equity at Rs 147.05 each. (BQ)
- ▶ **GAIL** moves NCLT against Arcelor Mittal Essar Steel bid (Mint)
- ▶ **ICICI Bank** to raise ₹25,000 crore to fill void left by NBFCs (BL)
- ▶ **Bharti Airtel** signs for over \$2 bn loan amid threat of ratings cut (Mint)

## What's Inside

- ▶ **Result Update:** Simplex Infrastructure Ltd.

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Result Update

## SIMPLEX INFRASTRUCTURE LTD

### Stock Details

Market cap (Rs mn)	:	12295
52-wk Hi/Lo (Rs)	:	655 / 187
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	42,356
Shares o/s (mn)	:	56.7

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	57,662	68,688	76,203
Growth (%)	2.8	19.1	10.9
EBITDA	6,689	8,243	9,144
EBITDA margin (%)	11.6	12.0	12.0
Net profit	1,169	1,493	1,919
EPS (Rs)	21.6	26.3	33.3
Growth (%)	(4.4)	22.0	26.5
Book value (Rs/share)	329.2	385.6	420.1
Dividend per share (Rs)	0.5	0.5	0.5
ROE (%)	6.8	7.8	8.3
ROCE (%)	11.6	12.3	12.5
P/E (x)	10.0	8.2	6.5
EV/EBITDA (x)	7.1	5.4	5.1
P/BV (x)	0.7	0.6	0.5

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	49.3	49.3	56.3
FII	9.6	9.6	2.0
DII	20.9	21.1	18.6
Others	20.1	20.0	23.0

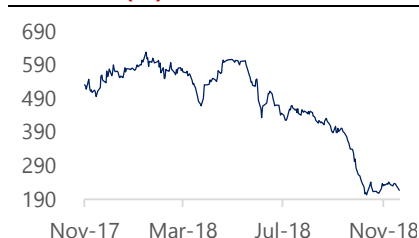
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Simplex Infra	1.5	(47.5)	(62.9)
Nifty	3.4	(7.8)	0.6

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Teena Virmani

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PRICE Rs.215

TARGET Rs.333

BUY

Simplex Infrastructure results for Q2FY19 were lower than our expectations on revenues and profit front. Margins stood in line with estimates. Order inflow was weak during the quarter but is likely to improve going forward. Execution is also likely to ramp up in H2FY19.

### Key highlights

Revenue growth of 27% YoY was lower than our estimates but is likely to improve in coming quarters. Margins witnessed a decline on YoY basis but improved sequentially. Order inflow stood at Rs 4.3 bn for Q2FY19 with closing order book of Rs 168.2 bn.

### Valuation and outlook

At current price of Rs 215, stock is trading at 8.2x P/E and 6.5x on P/E and 5.4x and 5.1x EV/EBITDA on FY19 and FY20 estimates respectively. We revise our estimates and valuation multiple downwards to factor in slower than expected order inflows as well as liquidity crunch impacting various projects for the sector. We arrive at a revised price target of Rs 333 based on 10x FY20 estimates. We continue to maintain BUY on Simplex Infrastructure.

### Financial highlights

(Rs mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
<b>Net Sales</b>	<b>14,791</b>	<b>12,460</b>	<b>27%</b>	<b>15,842</b>	<b>-7%</b>
Expenditure	13,031	10,765		14,072	
<b>EBITDA</b>	<b>1,760</b>	<b>1,696</b>	<b>4%</b>	<b>1,770</b>	<b>-1%</b>
EBITDA margin (%)	11.9	13.6		11.2	
Depreciation	438	470		452	
<b>EBIT</b>	<b>1,323</b>	<b>1,226</b>	<b>8%</b>	<b>1,319</b>	<b>0%</b>
Interest	1,182	1,176		1,211	
EBT (exc other income)	141	50		108	30%
Other Income	207	294		296	
EBT	347	344	17%	404	-14%
Tax	77	66		122	
Tax (%)	22.1	19.3		30.1	
<b>PAT</b>	<b>271</b>	<b>278</b>	<b>2%</b>	<b>283</b>	<b>-4%</b>
Other comp inc	394	51		345	
<b>Net profit</b>	<b>665</b>	<b>329</b>	<b>91%</b>	<b>627</b>	<b>6%</b>
NPM (%)	1.8	2.2		1.8	
Equity Capital	114	99		114	
<b>EPS (</b>	<b>4.8</b>	<b>5.6</b>	<b>-11%</b>	<b>5.0</b>	<b>-4%</b>

Source: Company

### Revenue growth lower than estimates

Execution during Q2FY19 was lower than our estimates and was impacted by monsoons. However execution is likely to improve from Q3FY19 onwards along with improvement in payment recovery. Order inflow of Rs 11.7 bn during H1FY19 has come largely in building and housing segment along with power and piling segment. Going ahead, company expects order inflow to come largely from power, industrial, urban infra, building and housing followed by marine, bridges and piling based on the current bid pipeline.

Current order book of Rs 168 bn is diversified across buildings and housing (24%), bridges (3%), industrial (2%), marine (4%), piling (3%), power (22%), railways (1%), roads (16%), and urban infrastructure (25%). Domestic orders form nearly 97% of the order book while remaining is from overseas. Proportion of private sector/government projects in the total order book in Q2FY19 is 23%:77%.

Revenues for H1FY19 are diversified across buildings and housing (30%), bridges (2%), industrial (7%), marine (4%), piling (8%), power (21%), railways (3%), roads (5%), and urban infrastructure (20%). International revenues contributed 6% of the revenues while domestic revenues contributed around 94% during the quarter.

Company management has given a guidance of 40% growth in revenues in FY19 to Rs 81 bn and another 35% YoY growth in FY20 to Rs 110 bn with strong margins at 12.5% along with reduction in working capital cycle to 188 days/157 days in FY19/20 respectively. As per company, the execution run rate is likely to jump sharply to nearly Rs 8 bn a month. New projects are coming at a lower net working capital cycle of 90 days and company expects to reduce the debtor days sharply going forward with collection in debtors of nearly Rs 8 bn/10 bn in FY19/20 respectively.

We maintain our estimates and expect revenues to grow by 19%/18% for FY19/20 respectively led by inflows of Rs 100bn/120 bn for FY19/20 and would revise our estimates in line with management guidance once we see 1-2 quarters of healthy traction in execution.

### **Lower margins led to lower than expected net profit**

Operating margins for the quarter stood largely in line with our estimates at 11.9% but company believes that current order book has margins in the range of 12-13% so margins should improve from current levels. Company has indicated that their focus going forward would continue to be more on debtor improvement as well as debt reduction. Debtor recovery is expected to be around Rs 8bn/10 bn for FY19/20 respectively.

We revise our estimates and expect net profits to grow at a CAGR of 33.8% between FY18-20.

### **Valuation and outlook**

At current price of Rs 215, stock is trading at 8.2x and 6.5x on P/E and 5.4x and 5.1x EV/EBITDA on FY19 and FY20 estimates respectively. We revise our estimates and valuation multiple downwards to factor in slower than expected order inflows as well as liquidity crunch impacting various projects for the sector. We arrive at a revised price target of Rs 333 based on 10x FY20 estimates. (Rs 600 earlier based on 15x FY20 estimates). We continue to maintain BUY on Simplex Infrastructure.

### **Company background**

Simplex Infrastructures Ltd. is a diversified company established in 1924 and executing projects in several sectors like Piling, industrial, power plant, urban infra, airports, building and housing, marine, railways, bridges and elevated road structures. It has nearly 90 years executing projects with consistent quality assurance, cost control and adherence to milestones in a safe environment as per the customer requirements. The Company has been closely associated with the country's infrastructure building with over 2600 completed projects spanning almost all the gamut of construction industry.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>56,075</b>	<b>57,662</b>	<b>68,688</b>	<b>76,203</b>
% change YoY	(2.9)	2.8	19.1	10.9
<b>EBITDA</b>	<b>6,887</b>	<b>6,689</b>	<b>8,243</b>	<b>9,144</b>
% change YoY	16.1	(2.9)	23.2	10.9
Other Income	891	1,363	700	700
Depreciation	1,978	1,834	1,914	2,201
<b>EBIT</b>	<b>5,800</b>	<b>6,217</b>	<b>7,029</b>	<b>7,643</b>
% change YoY	10.3	7.2	13.1	8.7
Net interest	4,454	4,709	4,766	4,735
Profit before tax	1,346	1,509	2,262	2,908
% change YoY	39.6	12.1	50.0	28.5
Tax	143	340	769	989
as % of PBT	10.6	22.5	34.0	34.0
Profit after tax	1,203	1,169	1,493	1,919
Other compr income	82	97	-	-
<b>Net income</b>	<b>1,121</b>	<b>1,072</b>	<b>1,493</b>	<b>1,919</b>
% change YoY	69.2	(4.4)	39.3	28.5
Shares outstanding (m)	49.7	49.7	56.7	57.6
<b>EPS (reported) (Rs)</b>	<b>22.6</b>	<b>21.6</b>	<b>26.3</b>	<b>33.3</b>
CEPS (Rs)	62.4	58.5	60.1	71.6
DPS (Rs)	0.50	0.50	0.50	0.50

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	5,718	6,120	7,029	7,643
Depreciation	1,978	1,834	1,914	2,201
Change in working capital	(2,954)	(3,797)	(448)	(4,756)
Chg in other net current assets	(65)	(195)	(9)	1
Operating cash flow	4,676	3,963	8,485	5,089
Interest	(4,454)	(4,709)	(4,766)	(4,735)
Tax	(143)	(340)	(769)	(989)
<b>Cash flow from operations</b>	<b>79</b>	<b>(1,086)</b>	<b>2,950</b>	<b>(635)</b>
Capex	(888)	(1,066)	(2,000)	(2,000)
(Inc)/dec in investments	(16)	(1)	(1)	(1)
<b>Cash flow from investments</b>	<b>(903)</b>	<b>(1,067)</b>	<b>(2,001)</b>	<b>(2,001)</b>
Proceeds from issue of equity	-	-	14	2
Increase/(decrease) in debt	988	2,902	(2,500)	2,000
Proceeds from share premium	(39)	(0)	4,036	448
Dividends	(29)	(29)	(29)	(33)
<b>Cash flow from financing</b>	<b>920</b>	<b>2,873</b>	<b>1,521</b>	<b>2,417</b>
Opening cash	233	329	1,049	3,519
Closing cash	329	1,049	3,519	3,299

Source: Company, Kotak Securities – Private Client Research

### Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	329	1,049	3,519	3,299
Accounts receivable	58,157	64,996	67,747	75,159
Inventories	7,464	7,561	9,033	10,021
Loans and advances & others	5,003	5,854	6,377	7,036
Current assets	70,953	79,461	86,675	95,515
Other non-current assets	-	227	227	227
LT investments	1,379	1,381	1,382	1,384
Net fixed assets	11,845	11,076	11,162	10,961
<b>Total assets</b>	<b>84,177</b>	<b>92,144</b>	<b>99,446</b>	<b>108,086</b>
Payables	31,042	35,034	39,331	43,634
Others	115	20	20	20
Current liabilities	31,157	35,054	39,351	43,654
Provisions	172	155	150	150
LT debt	36,480	39,382	36,882	38,882
Other liabilities	1,064	1,207	1,207	1,207
Equity	99	99	113	115
Reserves	15,204	16,246	21,742	24,077
<b>Total liabilities</b>	<b>84,176</b>	<b>92,143</b>	<b>99,445</b>	<b>108,085</b>
BVPS (Rs)	308.2	329.2	385.6	420.1

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	12.3	11.6	12.0	12.0
EBIT margin (%)	10.3	10.8	10.2	10.0
Net profit margin (%)	2.0	1.9	2.2	2.5
Receivables (days)	362.4	389.8	360.0	360.0
Inventory (days)	48.0	47.6	48.0	48.0
Sales/assets	4.7	5.2	6.2	7.0
Interest coverage (x)	0.3	0.2	0.3	0.4
Debt/equity ratio	2.4	2.4	2.0	1.6
ROE (%)	7.6	6.8	7.8	8.3
ROCE (%)	11.4	11.6	12.3	12.5
EV/ Sales	0.8	0.8	0.6	0.6
EV/EBITDA	6.6	7.1	5.4	5.1
Price to earnings (P/E)	9.6	10.0	8.2	6.5
Price to book value (P/B)	0.7	0.7	0.6	0.5
Price to Cash Earnings	3.5	3.7	3.6	3.0

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
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- SUBSCRIBE** – We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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