SIMPLEX INFRASTRUCTURES LIMITED

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Facilities			
Long-term Bank Facilities	2,100 (enhanced from 1,800)	**'CARE AA-' (Double A Minus)**	Revised from CARE AA (Double A)
Long / Short-term Bank Facilities	9,000 (enhanced from 8,500)	**'CARE AA-/CARE A1+' (Double A Minus/ A One Plus)**	Long term rating revised from CARE AA (Double A). Short term rating reaffirmed
Total Facilities	**11,100.0**		
Instruments			
Short-term Debt (including CP)@	500 (reduced from 950)	**'CARE A1+' (A One Plus)**	Reaffirmed
Short-term Debt (including CP)	350		
Non-Convertible Debentures (NCD)	200	**'CARE AA-' (Double A Minus)**	Revised from 'CARE AA' (Double A)
Proposed Long-term borrowing (including NCDs)	200		Assigned

@ carved out of working capital limits

Rating Rationale

The revision in long term rating of Simplex Infrastructures Ltd. (Simplex) takes into account the decline in revenue in FY13 (refers to the period April 1 to March 31) & Q1FY14 and deterioration in profitability parameters, average collection period and overall gearing ratio. The ratings however, continue to draw strength from the long and satisfactory track record of the company, proven project execution capabilities with strong technical tie-ups, strong order book position comprising both geographically and sectorally diversified projects and satisfactory client portfolio. The ratings also factor in volatile input prices and sluggish growth currently being witnessed by the construction sector.

Effective management of working capital, timely execution of orders and receipt of contract proceeds alongwith containment of operating and borrowing costs are the key rating sensitivities.

Background

Simplex, incorporated in 1924, is one of the leading construction companies of the country, belonging to Mr. B. D. Mundhra & his family of Kolkata. Mr. Mundhra and his two sons, Mr. R. Mundhra and Mr. A.D. Mundhra, possess rich experience in the industry. The company is primarily engaged in foundation work, turnkey projects and general civil construction. Over the decades, Simplex has completed large number of prestigious contracts and has received commendation certificates from many of its clients. The company also has overseas presence in countries like Thailand, Bangladesh, Bahrain, Dubai, Oman, Qatar, Saudi Arabia, Ethiopia and Sri Lanka.

Credit Risk Assessment

Long & satisfactory track record

Simplex has been in the construction industry for around nine decades with a track record of executing over 2,600 projects across diverse construction verticals and geographies. The company offers services covering the whole gamut of civil and structural

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

construction activities including turnkey projects comprising layout plan, detailed civil & engineering design, architecture, structural construction, complete execution and commissioning. Simplex has expertise in concrete piling, road & railways, bridges, power, urban infrastructure, building & housing, marine and industrial structures. It is the pioneer in 'cast-in-situ' driven pile foundation in India and South East Asia. The company has a pan India presence and also has a number of overseas branches.

Proven project execution capability with strong technical tie-ups

The large number of projects executed over the years with more than 200 in-house independent project execution teams, large assets base of around Rs.1,880 crore as on March 31, 2013 along with continuously growing order book corroborate Simplex's proven project execution capability. The company has access to latest technology through tie-ups with technocrats, consultants, architects and engineers and has absorbed advanced technology in a number of areas like foundation engineering, micro piling technique, etc. The company also has a full-fledged designing and drawing department and a separate R&D department as well.

Deterioration in leverage position and average collection period

Debt-equity ratio, though deteriorated marginally as on March 31, 2013 vis-a-vis March 31, 2012 continued to remain comfortable in view of low level of term loans. However, overall gearing, which had been at a moderate level, deteriorated as on March 31, 2013, mainly due to availment of short term loans and higher bank borrowings, to finance the increase in working capital cycle.

The business of the company is working capital intensive due to average execution period of around 30 months for the projects and high average collection period. The average collection period which was already at a high level of 135 days in FY12 increased further to 183 days in FY13 with delayed receipts mainly from clients in real estate sector, and to some extent in power sector and government clients related to urban infrastructure. The working capital cycle increased from 99 days in FY12 to 131 days in FY13 mainly due to the increase in collection period. However, the average client exposure and the highest exposure to a single client are 0.4% and 5.6% of debtors respectively indicating diversified client profile.

Till June 15, 2013, Simplex recovered around 30% out of the outstanding debtors as on March 31, 2013.

Decline in revenue in FY13 and deterioration in profitability parameters over the last few years

Gross billing increased by 26% in FY12 over FY11 but declined by about 1% in FY13 from FY12 mainly on account of slower execution of projects (mainly in the real estate sector which comprised 29% of the order book as on March 31, 2012) to prevent further deterioration in working capital cycle due to delay in payments from clients. PBILDT margin remained range bound between FY11-FY13 due to inherent strong operating margin of the order backlog at around 10%. Capital charge surged in the last three years owing to higher depreciation on a larger asset base and increase in interest outgo on the higher level of borrowings. Higher increase in capital charge vis-à-vis PBILDT level led to decline in PAT level, PAT margin and interest coverage ratio over the last three years from FY11 to FY13.

Despite decline in gross billing by about 12%, PBILDT margin increased in Q1FY14 vis-à-vis Q1FY13 due to execution of higher margin projects. However, PAT margin declined on account of higher interest expenses. As per the unaudited working results for the quarter ended June 30, 2013, Simplex earned PAT of Rs.12.8 crore (Rs.20.1 crore in Q1FY13) on gross billing of Rs.1,392.9 crore (Rs.1,582.9 crore in Q1FY13).

Strong order book position translating in robust medium-term revenue visibility

The order book as on June 30, 2013 stood at Rs.15,163 crore which was 2.6x the gross billing in FY13. There has been a constant inflow of new orders despite the continuous sluggish growth being witnessed in the sector (Simplex got orders worth Rs.6,306 crore in FY13 and Rs.1,685.0 crore in Q1FY14) thereby providing assured revenue visibility to the company on the back of its project execution capability, as demonstrated in the past. However, the company had around Rs.2,941.8 crore of slow moving orders pertaining to real estate sector.

Simplex had L1 position in about Rs.4,700 crore worth of orders as on June 30, 2013 and has already received orders of Rs.2055 crore out of the same.

Diversified-project mix with satisfactory client portfolio

Simplex's order book as on June 30, 2013 was diversified sectorally and geographically and comprised of 232 contracts across 214 project sites, insulating the company from slowdown pertaining to any specific sector and/or geography to an extent. The order book having an average project execution period of around two and half years consisted of orders from infrastructure sector (51%), power sector (18%), industrial sector (7%) and building & housing sector (24%). While 93% of the orders were domestic, the remaining order book (7%) comprised of overseas projects mainly in Middle East countries. Within the infrastructure sector, the contribution of roads sector (including four road BOT projects of which the EPC share in the current order book was about Rs.1,743 crore) stood at 15% as on June 30, 2013.

Simplex has an impressive client portfolio, including reputed public sector entities (37% of order book) and established private sector companies (46% of order book) along with several projects on public-private partnership basis (17% of order book) with mainly in roads and power transmission projects.

Increase in exposure to group companies

Simplex is also executing projects through SPVs and other subsidiaries. The aggregate exposure increased to Rs.450.6 crore as on March 31, 2013 from Rs.394.1 crore as on March 31, 2012, accounting for around 30% of Simplex's tangible net worth as on March 31, 2013. However, Simplex had advance against contracts outstanding from subsidiaries, joint ventures and associates of Rs.130.2 crore as on March 31, 2013. Besides this, Simplex has given corporate guarantee to banks for issue of bid bonds on behalf of subsidiaries and performance guarantees, mobilization advance guarantees & guarantee towards securing release of retention money to joint venture, associates & other body corporate as part of normal course of business operations aggregating to Rs.847.1 crore (increased from Rs.473.1 crore as on March 31, 2012). Further, Simplex has also undertaken four BOT projects through SPV where the total equity commitment of Simplex is Rs.303.7 crore and Rs.74.6 crore is already invested till March 31, 2013. Out of these four BOT projects, the appointed dates for two of the projects are yet to be declared.

Volatile raw material prices

The construction materials & labour cost (including sub-contracting expenses) forms the major portion of the total cost of sales (about 80%). The same are volatile in nature and impact profitability. However, Simplex keeps itself more or less insulated from these by virtue of cost escalation clause with respect to its contracts. As on June 30, 2013, about 84% of the contracts had cost escalation clauses, while the remaining 16% were fixed price contracts which mainly comprises of EPC portion of BOT road projects and piling projects which are of relatively shorter tenure varying between three-nine months.

Prospects

The outlook of construction sector appears challenging amidst sluggish growth in the flow of new orders, slow execution of the existing order book in view of hindrances related to land acquisition, obtaining requisite clearances, labor shortage, etc. Additionally, the sector is plagued with high interest rates in the economy and elongated working capital cycle leading to increase in debt level of construction companies. However, the long-term outlook appears satisfactory on the back of major investment expected both from government and private sectors.

Simplex's long and satisfactory track record, diversified project mix and strong order book augur well for the company. However, going forward, ability of the company to raise resources to manage growth in operation, containing operating & borrowing costs along with timely execution of ongoing projects and receipts of contract proceeds thereof will be crucial.

Financial performance

(Rs. crore)

For the period ended / as at Mar.31,	2011	2012	2013
	12m, A		
Working Results			
Gross billing	4666.34	5865.02	5782.42
Total operating income	4691.99	5902.60	5835.06
PBILDT	480.60	541.73	561.22
Interest	144.78	231.06	289.56
Depreciation	160.83	183.32	200.42
PBT	195.46	133.30	90.32
PAT (after defd. tax)	123.24	89.19	59.82
Gross cash accrual (GCA)	315.89	288.87	270.74
Financial Position			
Equity share capital	9.93	9.93	9.93
Tangible networth	1213.75	1382.77	1477.93

For the period ended / as at Mar.31,	2011	2012	2013
	12m, A		
Total capital employed	2925.54	3577.39	4251.81
Key Ratios			
Growth (%)			
Growth in total income (%)	5.48	25.38	-0.92
Growth in PAT (after defd. tax) (%)	6.39	-27.63	-32.93
Profitability (%)			
PBILDT margin	10.24	9.18	9.62
PAT margin	2.62	1.51	1.02
ROCE	11.36	9.82	8.52
Solvency			
Long term debt equity ratio (times)	0.22	0.20	0.28
Overall gearing ratio (times)	1.42	1.62	1.88
Interest coverage (times)	3.32	2.34	1.94
Term Debt/ GCA (years)	0.85	0.97	1.53
Liquidity			
Current ratio (times)	1.08	1.08	1.12
Quick ratio (times)	0.86	0.88	0.96
Turnover			
Average collection period (days)	124	135	183
Average creditors (days)	91	90	109
Average inventory (days)	59	53	56
Operating cycle (days)	92	99	131

Note:

(i) Advances from customers are strictly not current liabilities, in entirety, and constitute an important and stable funding source. Accordingly, we have considered 40% of such advances as current liabilities in our analysis (based on the fact that the average period of Simplex's contracts is about two and half years). The remaining 60% has been assumed as long-term liability. Interest bearing portion of the same has been considered for calculation of overall gearing ratio and total debt/GCA.

(ii) Retention money outstanding but not due has been taken out from sundry debtors and considered as other current asset to the extent falling due within the next 12 months. Any portion falling due after 12 months is considered as non-current assets.

(iii) Billing in excess of revenue and unbilled revenue as on March 31, 2011, March 31, 2012 and March 31, 2013 have been adjusted from debtors for calculating average collection period.

(This follows our brief rational for entity published on 6 September 2013)

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