# Simplex Infrastructures Limited

**June 10, 2019**

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| **Facilities** | | | |
| Long-term Bank Facilities | 2,624.40 | **CARE A- ; Negative (Single A Minus; Outlook: Negative)** | **Revised from CARE A -; Stable (Single A Minus; Outlook: Stable)** |
| Long/Short-term Bank Facilities | 7,900.00 | **CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)** | **Revised from CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)** |
| **Total Facilities** | **10,524.40 (Rupees Ten Thousand Five Hundred Twenty Four crore and Forty Lakh only)** | | |
| **Instruments** | | | |
| Non-Convertible Debentures | 525.00 (Rupees Five Hundred and twenty five crore only) | **CARE A- ; Negative (Single A Minus; Outlook: Negative)** | **Revised from CARE A- ; Stable (Single A Minus; Outlook: Stable)** |

*Details of facilities/Instruments in Annexure*

**Detailed Rationale and Key Rating Drivers**

The ratings continue to derive strength from the long and satisfactory track record of the company, proven project execution capabilities with strong technical tie-ups, strong order book position translating into medium-term revenue visibility and diversified project mix as well as client portfolio.

The ratings also take note of the relatively stable operating income and profitability in FY19. Further there was an equity infusion of Rs.452 crore in Q1FY19 and Rs.25 crore in Q4FY19 which has resulted in marginal reduction in debt resulting in improvement in overall gearing though the debt continues to remain higher than envisaged.

The ratings are constrained by continued elongation of the operating cycle in FY19 (refers to the period April 1 to March 31) as a result of higher than envisaged level of receivables, exposure to group companies and volatile input prices, which is mitigated to an extent by presence of cost escalation clauses in majority of contracts in the order book.

Raising resources through asset monetisation and equity infusion to manage growth in scale of operation and reduce debt level along with improvement in collection period, as envisaged are key rating sensitivities.

**Outlook Negative**

The outlook has been revised to 'Negative' considering the elongation in collection period leading to deterioration of working capital cycle and high utilization of working capital limits. The same is not in line with CARE's expectation of improvement in receivables period as well as reduction in borrowings to the envisaged levels. The outlook may be revised to 'stable' if the company is able to bring down its level of debtor's and utilize the proceeds thereof towards reduction in debt levels.

**Detailed description of Key Rating Drivers**

**Key Rating Strengths**

***Long and satisfactory track record of the company***

Simplex has been in the construction industry for more than nine decades with a track record of executing over 3,000 projects across diverse construction verticals and geographies. The company offers services covering the whole gamut of civil and structural construction activities including turnkey projects comprising layout plan, detailed civil & engineering design, architecture, structural construction, complete execution and commissioning. 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 along with a strong order book corroborate Simplex's project execution capability. The company has access to latest technology through tie-ups with technocrats, consultants, architects and engineers and has absorbed

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

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.

***Strong order book position translating in robust medium-term revenue visibility***
The order book as on March 31, 2019 stood at Rs.16,020 crore which was 2.61x the gross billing in FY19 and with an average execution period of 2.5 years. The company was successful in getting new orders worth ~Rs.3,194 crore during FY19 and was L1 for Rs. 923 crore thereby providing assured revenue visibility to the company on the back of its project execution capability, as demonstrated in the past.

***Diversified-project mix and client portfolio***
Simplex's order book as on March 31, 2019 was diversified sectorally and geographically and comprised of 219 contracts across 9 construction verticals and 7 countries. Building & Housing and Power sector accounted for 50% of the total order book outstanding as on Mar.31, 2019 while Road and Bridges sectors accounted for 9%. While 98% of the orders were domestic, the remaining order book of 2% comprised of overseas projects primarily in Middle East countries.
Simplex has a diversified client portfolio, including public sector entities (82% of order book) and private sector entities (18% of order book).

***Relatively stable operating income and profitability in FY19***
Operating income in FY19 grew by about 4% from FY18 with moderate order book. However, the same was lower than envisaged partly due to delay by the client in providing the design and drawings, partly due to delay in handing over of site and shortfall in labour availability. PBILDT margin and PAT margin in FY19 was more or less stable as compare to FY18.

**Key Rating Weaknesses**
***Increase in average collection period leading to deterioration in operating cycle***
The business of the company is working capital intensive in nature resulting in high operating cycle. The average collection period (including retention money) which was already high at 354 days in FY18 increased further to 366 days in FY19 with slowdown in recovery from the clients, delays in approvals of bills mainly from government clients and arbitration in certain receivables. Debtors level increased to Rs.6,309 crore as on Mar.31, 2019 from Rs.5,984 crore as on Mar.31, 2018 as against CARE's expectation of reduction in the same.
Till May 31, 2019, Simplex recovered around 13% out of the outstanding debtors as on March 31, 2019.

***Continued high debt levels albeit improvement in capital structure from FY18***
A combination of debt reduction through recovery from debtors and through equity infusion was expected to result in significant reduction in total bank debt as on Mar.31, 2019. Overall gearing (including mobilisation advances) improved to 2.27x as on March 31, 2019 as against 3.15x as on March 31, 2018 mainly on account of equity infusion of Rs.477 crore. However debt continued to remain at elevated levels due to slower than expected realisation of debtors.

***Exposure to group companies***
Simplex had exposure to subsidiaries, joint ventures and associates mainly in the form of fund and non-fund based limits accounting for around 27% of Simplex's tangible net worth as on Mar.31, 2018.

***Volatile raw material prices***
The construction materials & labour cost (including sub-contracting expenses) forms the major portion of the total cost of sales. 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 March 31, 2019, about 85% of the contracts had cost escalation clauses, while the remaining 15% were fixed price contracts of relatively shorter tenure varying between three-nine months (which includes all the piling contracts).

***Stable industry outlook***
The focus of the government on infrastructure development is expected to translate into a significant business potential for the construction industry in the long-run. In the short to medium term, projects from infrastructure sector are expected to dominate the overall business for construction companies.

**Liquidity**
The average fund based utilisation for the 12 month period ended April 30, 2019 was ~93% and it continued to remain high on account of slow pace of recovery from debtors.

**Analytical Approach:** Standalone
**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

**About the company**
Simplex, incorporated in 1924, is one of the leading construction companies of the country, belonging to Mundhra family of Kolkata. The company is primarily engaged in EPC contracts, turnkey projects related to civil construction across various sectors. 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 Bangladesh, Bahrain, UAE, Oman, Qatar, Saudi Arabia, Srilanka and Ethiopia.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 5895 | 6143 |
| PBILDT | 799 | 812 |
| PAT | 117 | 123 |
| Overall gearing (times)* | 3.15 | 2.27 |
| Interest coverage (times) | 1.70 | 1.72 |

** Including mobilisation advances*

**Status of non-cooperation with previous CRA:** Not applicable.

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Non-fund-based - LT/ ST-BG/LC | - | - | - | 7900.00 | CARE A-; Negative / CARE A2+ |
| Fund-based - LT-Cash Credit | - | - | - | 2600.00 | CARE A-; Negative |
| Term Loan-Long Term | - | - | Aug- 2019 | 24.40 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 29-Jun-12 | 11% | 29-Jun-20 | 22.5 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 29-Jun-12 | 11% | 29-Jun-21 | 22.5 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 29-Jun-12 | 11% | 29-Jun-22 | 30 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 06-Dec-12 | 10.75% | 06-Dec-20 | 25 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 31-Dec-12 | 10.75% | 31-dec-20 | 50 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 12-Feb-13 | 11.60% | 12-02-23 | 50 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 26-Dec-13 | 11.75% | 26-Dec-20 | 40 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 11-Mar-14 | 11.75% | 11-Mar-21 | 30 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 18-Mar-14 | 11.75% | 18-Mar-21 | 25 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 28-Mar-14 | 11.75% | 28-Mar-21 | 5 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 09-Jul-14 | 11.15% | 09-Jul-21 | 75 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 28-Jul-14 | 11.15% | 28-Jul-21 | 25 | CARE A-; Negative |
| Debentures- Non Convertible | 22-Jan-15 | 12.15% | 22-Jan-20 | 50 | CARE A-; Negative |

| | | | | | |
|---|---|---|---|---|---|
| Debentures | | | | | |
| Debentures- Non Convertible Debentures | 17-Jun-15 | 11.55% | 17-Jun-20 | 50 | CARE A-; Negative |
| Debentures- Non Convertible Debentures | 24-Jul-15 | 11.55% | 17-Jun-20 | 25 | CARE A-; Negative |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Type** | **Amount Outstanding (Rs. crore)** | **Rating** | **Date(s) & Rating(s) assigned in 2019-2020** | **Date(s) & Rating(s) assigned in 2018-2019** | **Date(s) & Rating(s) assigned in 2017-2018** | **Date(s) & Rating(s) assigned in 2016-2017** |
| 1. | Debentures-Non Convertible Debentures | LT | 200.00 | CARE A-; Negative | - | CARE A-; Stable (28-Sep-18) | CARE A; Stable (05-Oct-17) | 1)CARE A (01-Sep-16) |
| 2. | Fund-based - LT-Cash Credit | LT | 2600.00 | CARE A-; Negative | - | CARE A-; Stable (28-Sep-18) | CARE A; Stable (05-Oct-17) | 1)CARE A (01-Sep-16) |
| 3. | Non-fund-based - LT/ ST-BG/LC | LT/ST | 7900.00 | CARE A-; Negative / CARE A2+ | - | CARE A-; Stable / CARE A2+ (28-Sep-18) | CARE A; Stable / CARE A1 (05-Oct-17) | 1)CARE A / CARE A1 (01-Sep-16) |
| 4. | Debentures-Non Convertible Debentures | LT | 200.00 | CARE A-; Negative | - | CARE A-; Stable (28-Sep-18) | CARE A; Stable (05-Oct-17) | 1)CARE A (01-Sep-16) |
| 5. | Debentures-Non Convertible Debentures | LT | 50.00 | CARE A-; Negative | - | CARE A-; Stable (28-Sep-18) | CARE A; Stable (05-Oct-17) | 1)CARE A (01-Sep-16) |
| 6. | Debentures-Non Convertible Debentures | LT | 75.00 | CARE A-; Negative | - | CARE A-; Stable (28-Sep-18) | CARE A; Stable (05-Oct-17) | 1)CARE A (01-Sep-16) |
| 7. | Term Loan-Long Term | LT | 24.40 | CARE A-; Negative | - | CARE A-; Stable (28-Sep-18) | CARE A; Stable (05-Oct-17) | 1)CARE A (01-Sep-16) |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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