

## Simplex Infrastructures Limited

August 14, 2019

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
<b>Facilities</b>			
Long-term Bank Facilities	2,600.00	<b>CARE BBB; Negative (Triple B; Outlook: Negative)</b>	<b>Revised from CARE A -; Negative (Single A Minus; Outlook: Negative)</b>
Long/Short-term Bank Facilities	7,900.00	<b>CARE BBB; Negative/CARE A3+ (Triple B; Outlook: Negative/A Three Plus)</b>	<b>Revised from CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)</b>
<b>Total Facilities</b>	<b>10,500.00 (Rupees Ten Thousand Five Hundred crore only)</b>		
<b>Instruments</b>			
Non-Convertible Debentures	495.00 (Rupees Four Hundred and Ninety five crore only)	<b>CARE BBB; Negative (Triple B; Outlook: Negative)</b>	<b>Revised from CARE A -; Negative (Single A Minus; Outlook: Negative)</b>
Commercial Paper@	-	-	<b>Withdrawn</b>

@carved out of working capital limits

Details of facilities/Instruments in Annexure

### Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to Simplex Infrastructures Limited (Simplex) takes into account continued elongation in already high collection period in FY19 (refers to the period April 1 to March 31) leading to deterioration of working capital cycle, high utilization of working capital limits, higher than expected debt levels as on Mar 31, 2019. CARE had envisaged significant reduction in receivables which couldn't materialize resulting into higher than expected debt levels. Further, the rating considers slow movement in execution of large orders due to delay in getting designs approved, handover of sites by clients, etc. as well as audit observations/qualifications and change in one of the statutory auditors. The ratings also factor in company's plan to monetize one of the SPVs by the end of March 2020 and equity infusion of Rs.125 cr in respect of balance share warrant proceeds by Nov 2019 which would most be utilized for reduction in debt levels.

The ratings continue to derive strength from the long and satisfactory track record of the company, proven project execution capabilities, moderate 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.477 crore in FY19 which has resulted in marginal reduction in debt resulting in improvement in overall gearing albeit the debt level 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, inherent cyclical trends associated with the construction sector and profitability susceptible to volatility in input prices, which is mitigated to an extent by presence of cost escalation clauses in majority of contracts in the order book. Besides, Simplex has issued corporate guarantee amounting to ~Rs.746 cr to its group entities. The management has maintained that cash accruals of such group entities are sufficient to meet their debt obligations and Simplex would not take any further exposure in these entities.

The timeliness, adequacy of funds to be generated as well as raised, collection from legacy debtors and subsequent debt reduction remain key rating monitorables.

Further, CARE has withdrawn the rating assigned to Commercial Paper programme of the company at the request of the company and there is no amount outstanding under the issue as on date.

### Outlook Negative

The outlook continues to remain 'Negative' considering the continued 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

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

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***

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 moderate order book corroborate Simplex's project execution capability. The company has access to latest technology and has also 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.

##### ***Moderate order book position translating in medium-term revenue visibility***

The order book as on March 31, 2019 stood at Rs.16,020 crore which was 2.71x the gross billing in FY19 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. In Q1FY20 Simplex was L1 for Rs.650 crore apart from new orders worth Rs.1122 crore.

##### ***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 46% of the total order book outstanding as on Mar.31, 2019 while Road and Bridges sectors accounted for 19%. 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 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 358 days in FY18 increased further to 373 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.

##### ***Audit observations/qualifications and change in one of the statutory auditors***

One of the joint statutory auditors has raised audit observations as on March 31, 2019 regarding internal financial controls for evaluation of recoverability of old balances of unbilled revenue, loans/advances, trade receivables, retention monies, inventories at project sites and claims recoverable. The same auditor has further raised audit qualification pertaining to not recognizing appropriate provision in the standalone financial statement in respect of assets that are doubtful of recovery/ credit impaired, measuring the fair value of those financial assets and classifying the above assets as non-current.

The management has maintained that they are in discussion with its customers for recovery of those amounts.

One of the joint statutory auditors has resigned in order to avoid potential conflict that arises due to appointment of such auditor to provide management services. The management has appointed another statutory auditor.

**Continued high debt levels albeit improvement in capital structure in FY19**

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 2.28x 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**

The exposure to subsidiaries, joint ventures and associates was mainly on account of execution of projects (including overseas projects/BOT projects) through various SPVs. Aggregate exposure stood at Rs.464 crore as on March 31, 2019 as against Rs.407 crore as on March 31, 2017, accounting for around 23% of Simplex's tangible net worth as on Mar.31, 2019. Besides this, Simplex has given corporate guarantee to banks as part of normal course of business operations aggregating to Rs.746 crore as on March 31, 2019 (Rs.765 crore as on Mar.31, 2018).

**Profitability susceptible to volatility in 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 93% of the contracts had cost escalation clauses, while the remaining 7% were fixed price contracts of relatively shorter tenure varying between three-nine months (which includes all the piling contracts).

**Inherent cyclical trends associated with the construction sector**

The construction sector continue to witness cyclical trends due to inherent nature of the industry, though the long-term outlook for construction sector is stable. The construction industry contributes around 8% to India's Gross domestic product (GDP). The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and reviving the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into business potential for the construction industry in the long-run. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging potential opportunities.

**Liquidity: Adequate**

The company earned a GCA of Rs.341 crore vis-à-vis debt repayment of Rs. 122.44 crore in FY19. Further debt repayment obligation in FY20 stands at Rs. 178.46 crore (out of which Rs.46.24 crore already repaid till June 30, 2019 including put option of Rs.30 crore exercised) which is expected to be met out of cash accruals. Average fund based utilization is high at ~94% on account of high receivables. However, to support the liquidity, Rs.477 cr in FY19 has been infused through QIP via private placement and from promoters and balance Rs.125 cr is expected by Nov 2019. Also, the company has mandated an investment bank for monetisation of one of its SPV and expects to receive ~Rs.300 cr by March 2020. Further, the company expects to recover some of its legacy 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	6141
PBILDT	779	812
PAT	117	123
Overall gearing (times)*	3.15	2.28
Interest coverage (times)	1.73	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 BBB; Negative / CARE A3+
Fund-based - LT-Cash Credit	-	-	-	2600.00	CARE BBB; Negative
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Commercial Paper (Carved out)	-	-	-	0.00	Withdrawn
Debentures- Non Convertible Debentures	29-Jun-12	11%	29-Jun-20	22.5	CARE BBB; Negative
Debentures- Non Convertible Debentures	29-Jun-12	11%	29-Jun-21	22.5	CARE BBB; Negative
Debentures- Non Convertible Debentures	06-Dec-12	10.75%	06-Dec-20	25	CARE BBB; Negative
Debentures- Non Convertible Debentures	31-Dec-12	10.75%	31-Dec-20	50	CARE BBB; Negative
Debentures- Non Convertible Debentures	12-Feb-13	11.60%	12-Feb-23	50	CARE BBB; Negative
Debentures- Non Convertible Debentures	26-Dec-13	11.75%	26-Dec-20	40	CARE BBB; Negative
Debentures- Non Convertible Debentures	11-Mar-14	11.75%	11-Mar-21	30	CARE BBB; Negative
Debentures- Non Convertible Debentures	18-Mar-14	11.75%	18-Mar-21	25	CARE BBB; Negative
Debentures- Non Convertible Debentures	28-Mar-14	11.75%	28-Mar-21	5	CARE BBB; Negative
Debentures- Non Convertible Debentures	09-Jul-14	11.15%	09-Jul-21	75	CARE BBB; Negative
Debentures- Non Convertible Debentures	28-Jul-14	11.15%	28-Jul-21	25	CARE BBB; Negative
Debentures- Non Convertible Debentures	22-Jan-15	12.15%	22-Jan-20	50	CARE BBB; Negative
Debentures- Non Convertible Debentures	17-Jun-15	11.55%	17-Jun-20	50	CARE BBB; Negative
Debentures- Non Convertible Debentures	24-Jul-15	11.55%	17-Jun-20	25	CARE BBB; Negative

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

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		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	170.00	CARE BBB; Negative	1)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (28-Sep-18)	1)CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	2600.00	CARE BBB; Negative	1)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (28-Sep-18)	1)CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A2+ (28-Sep-18)	1)CARE A1 (05-Oct-17)	1)CARE A1 (12-Dec-16) 2)CARE A1 (01-Sep-16)

4.	Short Term Instruments-CP/STD	ST	-	-	-	-	1)Withdrawn (05-Oct-17)	1)CARE A1 (01-Sep-16)
5.	Non-fund-based - LT/ST-BG/LC	LT/ST	7900.00	CARE BBB; Negative / CARE A3+	1)CARE A-; Negative / CARE A2+ (10-Jun-19)	1)CARE A-; Stable / CARE A2+ (28-Sep-18)	1)CARE A; Stable / CARE A1 (05-Oct-17)	1)CARE A / CARE A1 (01-Sep-16)
6.	Debentures-Non Convertible Debentures	LT	200.00	CARE BBB; Negative	1)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (28-Sep-18)	1)CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)
7.	Debentures-Non Convertible Debentures	LT	75.00	CARE BBB; Negative	1)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (28-Sep-18)	1)CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)
8.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Negative	1)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (28-Sep-18)	1)CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)
9.	Term Loan-Long Term	LT	-	-	1)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (28-Sep-18)	1)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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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