Simplex Infrastructures Limited (Revised)

September 28, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Facilities			
Long-term Bank Facilities	2,624.40 (enhanced from 2,542.96)	**CARE A- ; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE A ; Stable (Single A; Outlook: Stable)**
Long/Short-term Bank Facilities	7,900 (reduced from 8,000)	**CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)**	**Revised from CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)**
Total Facilities	**10,524.40 (Rupees Ten Thousand Five Hundred Twenty Four crore and Forty Lakh only)**		
Instruments			
Non-Convertible Debentures	525 (reduced from 550) (Rupees Five Hundred and twenty five crore only)	**CARE A- ; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE A ; Stable (Single A; Outlook: Stable)**
Commercial Paper@	650 (Rupees Six Hundred and Fifty crore only)	**CARE A2+ (A Two Plus)**	**Revised from CARE A1 (A One)**

@ 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 the continued elongation of the operating cycle in FY18 (refers to the period April 1 to March 31) and significantly higher than envisaged receivables level due to slow recovery which also led to increase in borrowings.

The ratings also take note of the relatively stable operating income and profitability in FY18 and equity infusion of Rs.452 crore in Q1FY19 which has resulted in reduction in debt though it continues to remain higher than envisaged.

The ratings 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 translating into medium-term revenue visibility and diversified project mix as well as client portfolio.

The ratings are constrained by the working capital intensive nature of business, high overall gearing, 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 to manage growth in scale of operation and reduce debt level along with improvement in collection period as envisaged are key rating sensitivities.

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 June 30, 2018 stood at Rs.17,803 crore which was 3.16x the gross billing in FY18 and with an average execution period of 2.5 years. The company was successful in getting new orders worth Rs.7,666 crore during FY18 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 June 30, 2018 was diversified sectorally and geographically and comprised of 214 contracts across 9 construction verticals and 7 countries. Building & Housing and Power sector accounted for 45% of the total order book outstanding as on Jun.30, 2018 while Road and Bridges sectors accounted for 20%. While 97% of the orders were domestic, the remaining order book of 3% comprised of overseas projects primarily in Middle East countries.
Simplex has a diversified client portfolio, including public sector entities (76% of order book) and private sector entities (24% of order book).

Relatively stable operating income and profitability in FY18

Operating income in FY18 grew by about 2% from FY17 with increase in order book. However, the same was lower than envisaged due to slower movement in few of the recent contracts. PBILDT margin and PAT margin in FY18 was more or less stable as compare to FY17.

Key Rating Weaknesses

Deterioration in overall gearing and further increase in average collection period

The business of the company is working capital intensive with high average collection period. The average collection period which was already high at 329 days in FY17 increased further to 354 days in FY18 with delayed receipts in view of liquidity constraints of the client, delays in approvals of bills mainly from government clients, including GST related issues and arbitration in certain receivables. Debtors level increased to Rs.5984 crore as on Mar.31, 2018 as against Rs.5289 crore as on Mar.31, 2017.
The working capital cycle increased to 256 days in FY18 from 247 days in FY17 due to the increase in collection period. Till June 30, 2018, Simplex recovered around 30% out of the outstanding debtors as on March 31, 2018.
Though long term debt-equity ratio remained moderate as on Mar.31, 2018, overall gearing (including mobilisation advances) further deteriorated to 3.15x (2.87x as on March 31, 2017) and continued to remain high.
The company had expected faster realisation from debtors and significant recovery from long overdue debtors (about Rs.500 crore) in 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, 2018.
However, equity infusion of Rs.452 crore took place in May 2018 and recovery from old debtors was Rs.430 crore in FY18. Inspite of the same, borrowings continued to remain at higher than envisaged level due to slow pace of recovery in other debtors.
Simplex expects significant recovery from long overdue debtors (Rs.212 crore already recovered) in FY19 which is expected to improve the operating cycle in FY19. Also, the board has obtained an enabler resolution from shareholders to raise upto Rs.600 crore of equity.

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.411 crore as on March 31, 2018 as against Rs.312 crore as on March 31, 2017, accounting for around 27% of Simplex's tangible net worth as on Mar.31, 2018. Besides this, Simplex has given corporate guarantee to banks as part of normal course of business operations aggregating to Rs.1,052 crore as on March 31, 2018 (Rs.1,311 crore as on Mar.31, 2017).

Volatile raw material prices

The construction materials & labour cost (including sub-contracting expenses) forms the major portion of the total cost of sales (about 82%). 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, 2017, 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.

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)	FY17 (A)	FY18 (A)
Total operating income	5761	5895
PBILDT	774	799
PAT	120	117
Overall gearing (times)*	2.87	3.15
Interest coverage (times)	1.74	1.70

** 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

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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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.

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-; Stable / CARE A2+
Fund-based - LT-Cash Credit	-	-	-	2600.00	CARE A-; Stable
Term Loan-Long Term	-	-	Aug- 2019	24.40	CARE A-; Stable
Debentures- Non Convertible Debentures	29-Jun-12	11%	29-Jun-20	22.5	CARE A-; Stable
Debentures- Non Convertible Debentures	29-Jun-12	11%	29-Jun-21	22.5	CARE A-; Stable
Debentures- Non Convertible Debentures	29-Jun-12	11%	29-Jun-22	30	CARE A-; Stable
Debentures- Non Convertible Debentures	06-Dec-12	10.75%	06-Dec-20	25	CARE A-; Stable
Debentures- Non Convertible Debentures	31-Dec-12	10.75%	31-dec-20	50	CARE A-; Stable
Debentures- Non Convertible Debentures	12-Feb-13	11.60%	12-02-23	50	CARE A-; Stable
Debentures- Non Convertible Debentures	26-Dec-13	11.75%	26-Dec-20	40	CARE A-; Stable
Debentures- Non Convertible Debentures	11-Mar-14	11.75%	11-Mar-21	30	CARE A-; Stable
Debentures- Non Convertible Debentures	18-Mar-14	11.75%	18-Mar-21	25	CARE A-; Stable
Debentures- Non Convertible Debentures	28-Mar-14	11.75%	28-Mar-21	5	CARE A-; Stable
Debentures- Non Convertible Debentures	09-Jul-14	11.15%	09-Jul-21	75	CARE A-; Stable
Debentures- Non Convertible Debentures	28-Jul-14	11.15%	28-Jul-21	25	CARE A-; Stable
Debentures- Non Convertible Debentures	22-Jan-15	12.15%	22-Jan-20	50	CARE A-; Stable
Debentures- Non Convertible Debentures	17-Jun-15	11.55%	17-Jun-20	50	CARE A-; Stable
Debentures- Non Convertible Debentures	24-Jul-15	11.55%	17-Jun-20	25	CARE A-; Stable
CP	-	-	7-364 days	650.00	CARE A2+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	200.00	CARE A-; Stable	-	CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	2600.00	CARE A-; Stable	-	CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)	1)CARE A (08-Mar-16) 2)CARE A (28-Sep-15)
3.	Commercial Paper	ST	650.00	CARE A2+	-	CARE A1 (05-Oct-17)	1)CARE A1 (12-Dec-16) 2)CARE A1 (01-Sep-16)	1)CARE A1 (28-Sep-15)
4.	Short Term Instruments-CP	ST	-	-	-	- (05-Oct-17)	1)CARE A1 (01-Sep-16)	1)CARE A1 (28-Sep-15)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	7900.00	CARE A-; Stable / CARE A2+	-	CARE A; Stable / CARE A1 (05-Oct-17)	1)CARE A / CARE A1 (01-Sep-16)	1)CARE A / CARE A1 (08-Mar-16) 2)CARE A / CARE A1 (28-Sep-15)

6.	Debentures-Non Convertible Debentures	LT	200.00	CARE A-; Stable	-	CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)
7.	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	-	CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)
8.	Debentures-Non Convertible Debentures	LT	75.00	CARE A-; Stable	-	CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)
9.	Term Loan-Long Term	LT	24.40	CARE A-; Stable	-	CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-16)	1)CARE A (08-Mar-16)

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CIN - L67190MH1993PLC071691