Simplex Infrastructures Limited

October 05, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Facilities			
Long-term Bank Facilities	2,542.96 (reduced from 2,561.34)	**CARE A ; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank Facilities	8,000	**CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)**	**Reaffirmed**
Total Facilities	**10,542.96 (Rupees Ten Thousand Five Hundred Forty Two crore and Ninety Six Lakh only)**		
Instruments			
Non-Convertible Debentures	550 (Rupees Five Hundred and Fifty crore only)	**CARE A ; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short-term Debt (including CP)@	650 (enhanced from 550) (Rupees Six Hundred and Fifty crore only)	**CARE A1 (A One)**	**Reaffirmed**
Short-term Debt (including CP)	-		Withdrawn

Detail of facilities or instrument in Annexure-1

@ carved out of working capital limits

Detailed Rationale and Key Rating Drivers

The ratings assigned to Simplex Infrastructures Limited (Simplex) 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, however, are constrained by the elongated operating cycle resulting from the high average collection period which has further resulted in high leverage to finance working capital requirement. The ratings also factor in the 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.

The ratings also factor in the firm plans of the company to raise equity which is expected to materialise by January 2018. The infusion of equity and recovery from old debtors is expected to finance the execution of the growing order book as well as result in significant reduction in debt level by the end of FY18. 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 and any delay in achieving the same is likely to impact the rating.

Detailed description of the 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 2,900 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 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, 2017 stood at Rs.16,419 crore which was 3x the gross billing in FY17 and with an average execution period of 2.5 years. The company was successful in getting new orders worth Rs.8,117 crore during FY17 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, 2017 was diversified sectorally and geographically and comprised of 250 contracts across 9 construction verticals and 9 countries. Building & Housing and Power sector accounted for 53% of the total order book outstanding as on Jun.30, 2017 while Road and Bridges sectors accounted for 15%. While 94% of the orders were domestic, the remaining order book of 6% comprised of overseas projects primarily in Middle East countries.
Simplex has a diversified client portfolio, including public sector entities (63% of order book) and private sector entities (37% of order book).

Improved profitability in FY17 albeit decline in operating income
Operating income in FY17 declined by about 5% from FY16 due to slow execution in some of the projects during the year. PBILDT margin increased marginally to 13.61% in FY17 as against 12.96% in FY16 due to execution of higher margin contracts. Inspite of overall increase in capital charge, PAT margins improved to 2.11% in FY17 as against 1.77% in FY16 due to lower incidence of tax.

Key Rating Weaknesses
Continued high overall gearing and further increase in average collection period
The business of the company is working capital intensive with average collection period. The average collection period which was already high at 285 days in FY16 increased further to 329 days in FY17 with delayed receipts in view of liquidity constraints of the client, delays in approvals of bills mainly from government clients and arbitration in certain receivables.
The working capital cycle increased to 265 days in FY17 from 234 days in FY16 due to the increase in collection period. Till July 31, 2017, Simplex recovered around 41% out of the outstanding debtors as on March 31, 2017. Simplex expects significant recovery from long overdue debtors (about Rs.500 crore) in FY18 which is expected to improve the operating cycle to 223 days in FY18.
Though long term debt-equity ratio remained moderate as on Mar.31, 2017, overall gearing continued to remain high at 2.87x (3.09x as on March 31, 2016). The company has firm plans to raise equity of minimum Rs.500 crore during FY18 which will be utilised to finance the execution of the growing order book as well as reduce debt.
A combination of debt reduction through recovery from debtors and through equity infusion is expected to result in total bank debt of about Rs.2400 crore as on Mar.31, 2018 vis-à-vis Rs.3393 crore as on Mar.31, 2017.

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 net exposure stood at Rs.275 crore as on March 31, 2017 as against Rs.183 crore as on March 31, 2015, accounting for around 20% of Simplex's tangible net worth as on Mar.31, 2017. Besides this, Simplex has given corporate guarantee to banks as part of normal course of business operations aggregating to Rs.1,311 crore as on March 31, 2017 (Rs.1,414 crore as on Mar.31, 2016).

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 (next 2 years), 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 and Ethiopia.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	5997	5689
PBILDT	777	774
PAT	106	120
Overall gearing (times)*	3.09	2.87
Interest coverage (times)	1.81	1.74

** 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	-	-	-	8000.00	CARE A; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	2500.00	CARE A; Stable
Term Loan-Long Term	-	-	Aug- 2019	42.96	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%	11-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%	25-Apr-18	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
Short Term Instruments-CP/STD	-	-	7-364 days	650.00	CARE A1
Short Term Instruments-CP/STD	-	-	-	0.00	Withdrawn

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	200.00	CARE A; Stable	-	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)	1)CARE A+ (03-Sep-14)
2.	Fund-based - LT-Cash Credit	LT	2500.00	CARE A; Stable	-	1)CARE A (01-Sep-16)	1)CARE A (08-Mar-16) 2)CARE A (28-Sep-15)	1)CARE A+ (03-Sep-14)
3.	Short Term Instruments-CP/STD	ST	650.00	CARE A1	-	1)CARE A1 (12-Dec-16) 2)CARE A1 (01-Sep-16)	1)CARE A1 (28-Sep-15)	1)CARE A1+ (03-Sep-14)
4.	Short Term Instruments-CP/STD	ST	-	-	-	1)CARE A1 (01-Sep-16)	1)CARE A1 (28-Sep-15)	1)CARE A1+ (03-Sep-14)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	8000.00	CARE A; Stable / CARE A1	-	1)CARE A / CARE A1 (01-Sep-16)	1)CARE A / CARE A1 (08-Mar-16) 2)CARE A / CARE A1 (28-Sep-15)	1)CARE A+ / CARE A1+ (03-Sep-14)
6.	Debentures-Non Convertible Debentures	LT	200.00	CARE A; Stable	-	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)	1)CARE A+ (03-Sep-14)
7.	Debentures-Non Convertible Debentures	LT	75.00	CARE A; Stable	-	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)	1)CARE A+ (03-Sep-14)
8.	Debentures-Non Convertible Debentures	LT	75.00	CARE A; Stable	-	1)CARE A (01-Sep-16)	1)CARE A (28-Sep-15)	-
9.	Term Loan-Long Term	LT	42.96	CARE A; Stable	-	1)CARE A (01-Sep-16)	1)CARE A (08-Mar-16)	-

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