Simplex Infrastructures Limited (Revised)

November 25, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Facilities			
Long-term Bank Facilities	2,600.00	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Revised from CARE BBB ; Negative (Triple B; Outlook: Negative)**
Long/Short-term Bank Facilities	7,900.00	**CARE BB+; Negative /CARE A4+ (Double B Plus; Outlook: Negative/A Four Plus)**	**Revised from CARE BBB; Negative /CARE A3+ (Triple B; Outlook: Negative/A Three Plus)**
Total Facilities	**10,500.00 (Rupees Ten Thousand Five Hundred crore only)**		
Instruments			
Non-Convertible Debentures	495.00 (Rupees Four Hundred and Ninety five crore only)	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Revised from CARE BBB ; Negative (Triple B; Outlook: Negative)**

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 non infusion of equity of Rs.125 cr by promoters within the timelines as expected due to lapse of timelines for conversion of share warrants, moderation in profitability in Q2FY20 (refers to the period July 1 to September 30), continued elongation in already high collection period in Q2FY20 with increase in unbilled revenue leading to deterioration of working capital cycle further, stretched liquidity as indicated in high utilization of working capital limits on continuous basis and higher than expected debt levels as on September 30, 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, delay in receipt of payments, etc. as well as audit observations/qualifications.

The ratings are also constrained by 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 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 factor in company's plan to monetize one of the SPVs by the end of March 2020 as well as it plans to induct a strategic partner who would infuse funds.

Positive rating sensitivity

Significant infusion of funds leading to debt reduction

Substantial reduction in receivables including legacy debtors leading to improvement in liquidity position

Negative rating sensitivity

Inability to monetize one of the SPV's by end of March 2020.

Further increase in receivables including unbilled revenue

Outlook Negative

The outlook continues to remain 'Negative' considering the continued elongation in collection period with further increase in unbilled revenue which is likely to pose pressure on liquidity and capital structure. The outlook may be revised to 'Stable' if the company is able to realize its receivables and utilize the proceeds thereof towards reduction in debt

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

levels, monetization of one of its SPV's and substantial equity infusion by promoters or through induction of strategic partner.

Detailed description of Key Rating Drivers

Key Rating Weaknesses

Non infusion of balance equity of Rs.125 crore by promoters leading to continued elevated high debt levels

The promoters had infused Rs.452 crore in May 2018 including QIP issue (Rs.402 crore) and share warrants (out of Rs.200 crore share warrant issued upfront payment of Rs.50 crore was received). In January 2019, promoters have further infused Rs.25 crore against the conversion of share warrant and the balance of Rs.125 crore was expected to be infused by November 15, 2019. However as stated by the management the time period for conversion of balance amount of Rs.125 crore has lapsed and the same will not be infused and the upfront infusion of Rs.75 crore already done will be forfeited. Consequently overall gearing remained at elevated level and stood at 2.17x as on Sept. 30, 2019.

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. The debtors level increased to Rs.6,566 crore as on September 30, 2019 from Rs.6308.83 crore as on Mar.31, 2019 (with unbilled revenue increasing from ~Rs.4,380 crore to Rs.4,458 crore during the same period) as against CARE's expectation of reduction in the same.

Deterioration in operating income and profitability in Q2FY20

Operating income in Q2FY20 deteriorated by 13.02% as compared to Q1FY20 and by 21.87% as compared to Q2FY19 on account of slower execution of orders partly due to delay by the client in providing the design and drawings, partly due to delay in handing over of site and delay in receipt of payment from the clients. Further construction progress is also slow in the second quarter due to monsoon season which also impacted the turnover. However PBILDT margin in Q2FY20 was higher than Q1FY20 and Q2FY19 on account of execution of certain high margins orders. In Q2FY20, PAT reported was Rs.7.48 crore as against PAT of Rs. 20.89 crore for Q1FY20 and Rs.24.43 crore for Q2FY19 on account of lower non-operating income (mainly interest income) and higher interest expenses vis-à-vis Q1FY20 and Q2FY19.

Audit observations/qualifications

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. Further in Q2FY20 results both the auditors has raised similar audit observations.

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, 2018, 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 of group companies 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.

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 September 30, 2019 stood at Rs.15,302 crore (Rs.16,020 crore as on March 31, 2019) which was 2.59x 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 H1FY20 Simplex was L1 for Rs.873 crore apart from new orders worth Rs.1,877 crore.

Diversified-project mix and client portfolio

Simplex's order book as on September 30, 2019 was diversified sectorally and geographically and comprised of 205 contracts across 9 construction verticals and 6 countries. Building & Housing and Power sector accounted for 49% of the total order book outstanding as on Sept.30, 2019 while Road and Bridges sectors accounted for 18%. 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 (83% of order book) and private sector entities (17% of order book).

Liquidity: Stretched

The company earned a GCA of Rs.341 crore vis-à-vis debt repayment of Rs. 122.44 crore in FY19. However, majority of cash accruals is stuck in receivables. Further debt repayment obligation in FY20 stands at Rs. 178.46 crore (out of which ~Rs.66 crore already repaid till Sept 30, 2019 including put option of Rs.30 crore exercised) which is expected to be met out of cash accruals (GCA of Rs.107.89 crore during April 1, 2019 to September 30, 2019). Average fund based utilization is high at ~96% for 12 month ended Sept. 2019 on account of high receivables. However, 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 and also plans to induct a strategic partner who would infuse funds.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit watch 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)	H1FY20 (U/A)
Total operating income	5895	6141	2484
PBILDT	779	812	330
PAT	117	123	28
Overall gearing (times)*	3.15	2.28	2.17
Interest coverage (times)	1.73	1.72	1.35

** 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	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	2600	CARE BB+; Negative
Non-fund-based - LT/ ST-BG/LC		-	-	-	7900	CARE BB+; Negative / CARE A4+
Debentures- Non Convertible Debentures	INE059B07013	29-Jun-12	11%	29-Jun-20	13.5	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07013	29-Jun-12	11%	29-Jun-21	13.5	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07013	29-Jun-12	11%	29-Jun-22	18.0	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07021	06-Dec-12	10.75%	06-Dec-22	25	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07039	31-Dec-12	10.75%	31-Dec-22	50	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07047	12-Feb-13	12.25%	12-Feb-23	50	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07054	26-Dec-13	12.25%	26-Dec-20	40	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07062	11-Mar-14	12.25%	11-Mar-21	30	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07070	18-Mar-14	12.25%	18-Mar-21	25	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07088	28-Mar-14	12.25%	28-Mar-21	5	CARE BB+; Negative
Debentures- Non Convertible	INE059B07096	09-Jul-14	11.15%	09-Jul-21	75	CARE BB+; Negative

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures						
Debentures- Non Convertible Debentures	INE059B07104	28-Jul-14	11.15%	28-Jul-21	25	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07120	22-Jan-15	13.15%	22-Jan-20	50	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07138	17-Jun-15	12.45%	17-Jun-20	50	CARE BB+; Negative
Debentures- Non Convertible Debentures	INE059B07146	24-Jul-15	12.45%	17-Jun-20	25	CARE BB+; 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 BB+; Negative	1)CARE BBB; Negative (14-Aug-19) 2)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 BB+; Negative	1)CARE BBB; Negative (14-Aug-19) 2)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)Withdrawn (14-Aug-19)	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 BB+; Negative / CARE A4+	1)CARE BBB; Negative / CARE A3+ (14-Aug-19) 2)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	LT	200.00	CARE BB+; Negative	1)CARE BBB; Negative	1)CARE A-; Stable	1)CARE A; Stable (05-Oct-17)	1)CARE A (01-Sep-

	Debentures				(14-Aug-19) 2)CARE A-; Negative (10-Jun-19)	(28-Sep-18)		16)
7.	Debentures-Non Convertible Debentures	LT	75.00	CARE BB+; Negative	1)CARE BBB; Negative (14-Aug-19) 2)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 BB+; Negative	1)CARE BBB; Negative (14-Aug-19) 2)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)Withdrawn (14-Aug-19) 2)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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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