

Rating matrix	
Rating	: Buy
Target	: ₹ 750
Target Period	: 12-18 months
Potential Upside	: 29%

What's changed?	
Target	Changed from ₹ 550 to ₹ 750
EPS FY18E	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Changed from Hold to Buy

Key financials				
(₹ Crore)	FY17E	FY18E	FY19E	FY20E
Net Sales	5,607.5	6,159.2	6,941.5	7,853.4
EBITDA	688.7	774.9	887.2	1,003.8
Adj. Net Profit	120.3	169.9	206.8	284.1
EPS (₹)	24.3	34.3	41.8	57.4

Valuation summary				
(x)	FY17E	FY18E	FY19E	FY20E
P/E	24.0	17.0	13.9	10.1
Target P/E	30.9	21.8	17.9	13.1
EV / EBITDA	8.9	7.8	7.0	6.3
P/BV	1.9	1.7	1.5	1.3
RoNW (%)	7.9	10.0	10.8	12.9
RoCE (%)	11.8	12.8	14.1	15.4

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	2,881
Total Debt (₹ Crore)	3,533
Cash and Investments (₹ Crore)	49
EV (₹ Crore)	6,365
52 week H/L	617 / 260
Equity capital (₹ Crore)	9.9
Face value (₹)	2.0

Price performance				
Return %	1M	3M	6M	12M
NCC Ltd	22.7	45.9	42.5	60.1
Simplex Infra	11.4	21.8	11.1	114.1
NBCC	(4.5)	15.1	23.0	67.5



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Simplex Infrastructure (SIMCON)

₹ 582

Working cap to improve post debtor recovery

Management confident of recovering monies from old debtors...

Simplex Infrastructure (SIL) had passed an enabling resolution in Q1FY18 to raise up to ₹ 1000 crore, which would help it in debt reduction and consequent working capital improvement. However, the management has changed its stance. Now, it is looking to reduce debt via receipt of old debtors. It aims to recover ~₹ 450-500 crore in FY18E and ₹ 800 crore in FY19E from old debtors. SIL's debt has increased significantly by ₹ 248 crore to ₹ 3611 crore as on Q2FY18. Furthermore, SIL expects to receive ₹ 100 crore from the Bangladesh project by year-end. We believe that an improvement in its working capital position & consequent debt reduction will boost its bottomline growth. Consequently, we expect SIL's bottomline to grow robustly at 33.2% CAGR to ₹ 284.1 crore in FY17-20E.

Orderbook remains strong at ₹ 17301 crore...

SIL has received strong order inflows worth ~₹ 1931 crore in Q2FY18, taking its order book to ~₹ 17301 crore, 3.0x order book to bill ratio on a TTM basis, providing strong revenue visibility over the next few years. Also, it is L-1 (lowest bidder) for orders worth ₹ 1357 crore. Additionally, the company received orders worth ₹ 821 crore in Q3FY18E. The company is L1 in Mumbai metro order to design and construct 12 km long viaduct and 11 elevated stations on DN Nagar-Mankhurd corridor of Metro Line-2. Other newly won orders include Chennai metro order worth ₹ 400 crore, Power Grid order worth ₹ 155 crore, BPCL order worth ₹ 66 crore, etc. With a strong bidding pipeline worth ₹ 28000 crore, the management guided for order inflows of ~₹ 7000-8000 crore in FY18E and guided for topline growth of ~8-10%. Consequently, we expect the topline to grow at 11.9% CAGR to ₹ 7853.4 crore during FY17-20E.

Working capital to improve post debtor recovery; upgrade to BUY...

Currently, the stock is trading at a cheap valuation of 10.1x FY20E EPS among peers due to its stretched working capital position and high debt (D/E: 2.1x). However, the management has recently mentioned in the conference call that it aims to recover ~₹ 450-500 crore in FY18E and ₹ 800 crore in FY19E from old debtors. This should lead to substantial debt repayment and subsequent improvement in the working capital position thereby aiding profitability. In our view, this is the key to re-rating of the stock. As a result, we have upgraded our recommendation to **BUY** on the stock with a revised SOTP based target price of ₹ 750. We value its EPC business at ₹ 730/share (at 7x FY20E EV/EBITDA), oil rigs business at ₹ 7.1/ share and BOT road projects at ₹ 14.5/ share (at 0.8x P/BV).

Exhibit 1: SOTP valuation

Businesses	(₹ crore)	Per share (₹)	Comment
Construction business	7,026.3	1,414.7	7x FY20 EV/EBITDA
Oil rig business	35.3	7.1	DCF based valuation
BOT road project valuation	72.0	14.5	at 0.8x P/BV
Less: Net debt	-3,400.6	-684.7	FY20E Net Debt
Fair value	3,733.0	751.6	
Rounded off target price		750.0	

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(₹ Crore)	FY17	FY18E	FY19E	FY20E	
Net Sales	5,607.5	6,159.2	6,941.5	7,853.4	
Growth (%)	-3.5	9.8	12.7	13.1	
Raw Material Cost	1,642.2	1,797.6	2,026.0	2,292.1	
Employee Cost	2,248.3	2,469.5	2,769.3	3,133.1	
Other Expenditure	1,028.3	1,117.1	1,259.0	1,424.4	
Total Operating Expenditure	4,918.8	5,384.3	6,054.3	6,849.7	
EBITDA	688.7	774.9	887.2	1,003.8	
Growth (%)	9.1	12.5	14.5	13.1	
Other income	89.1	102.4	102.4	107.5	
Depreciation	197.8	205.8	213.8	221.9	
EBIT	490.9	569.1	673.4	781.9	
Interest	445.4	459.1	462.4	458.9	
PBT	134.6	212.4	313.4	430.5	
Tax	14.3	42.5	106.6	146.4	
Rep. PAT	120.3	169.9	206.8	284.1	
Exceptional items	0.0	0.0	0.0	0.0	
Adj. Net Profit	120.3	169.9	206.8	284.1	
Growth (%)	81.5	41.3	21.7	37.4	
EPS (₹)	24.3	34.3	41.8	57.4	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(₹ Crore)	FY17	FY18E	FY19E	FY20E	
Liabilities					
Equity capital	9.9	9.9	9.9	9.9	
Reserves & Surplus	1,520.4	1,696.0	1,907.7	2,194.7	
Shareholder's fund	1,530.3	1,705.9	1,917.6	2,204.7	
Secured & unsecured debt	3,281.6	3,413.7	3,463.7	3,463.7	
Deferred Tax Liability	106.4	106.4	106.4	106.4	
Sources of funds	4,918	5,226	5,488	5,775	
Assets					
Gross Block	2,458.5	2,558.5	2,658.5	2,758.5	
less: Acc. Depreciation	1,285.5	1,491.3	1,705.1	1,927.0	
Net Block	1,173.0	1,067.2	953.4	831.5	
Capital WIP	11.5	11.5	11.5	11.5	
Net Fixed Assets	1,184.5	1,078.7	964.8	843.0	
Investment	137.9	137.9	137.9	137.9	
Inventories	746.4	759.4	855.8	946.7	
Trade Receivables	1,529.4	1,485.0	1,673.6	1,893.4	
Cash	32.9	248.7	165.5	63.1	
Loans & Advances	476.4	948.5	1,069.0	1,209.4	
Other current assets	4,310.1	4,299.5	4,845.6	5,482.1	
Total current assets	7,233.2	7,878.9	8,747.4	9,732.7	
Current Liab. & Prov.	3,499.4	3,731.3	4,224.3	4,800.7	
Net Current Asset	3,733.8	4,147.6	4,523.1	4,932.0	
Application of funds	4,918	5,226	5,488	5,775	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(₹ Crore)	FY17	FY18E	FY19E	FY20E	
₹ crore					
Profit after Tax	120.3	169.9	206.8	284.1	
Depreciation	197.8	205.8	213.8	221.9	
Interest paid	-445.4	-459.1	-462.4	-458.9	
Cash Flow before wc changes	688.7	774.9	887.2	1,003.8	
Net Increase in Current Liabilities	418.5	231.9	493.0	576.4	
(Increase)/Decrease in Inventories	101.7	-12.9	-96.5	-90.9	
(Increased)/Decrease in Debtors	452.8	44.4	-188.6	-219.8	
Net cash flow from op. activities	241.0	75.2	-140.4	-112.8	
(Purchase)/Sale of Fixed Assets	-214.9	-100.0	-100.0	-100.0	
(Purchase)/Sale of Investments	14.5	0.0	0.0	0.0	
Other income	-89.1	-102.4	-102.4	-107.5	
Net cash flow from inv. activities	-111.3	2.4	2.4	7.5	
Proceeds from Long Term Borrowings	17.8	132.2	50.0	0.0	
Proceeds from Short Term Borrowings	0.0	0.0	0.0	0.0	
Dividend and Dividend Tax Paid	-3.0	-4.2	-5.1	-7.0	
Net cash flow from fin. activities	-110.9	137.9	54.8	2.9	
Net Cash flow	18.7	215.5	-83.2	-102.4	
Cash and Cash Equivalent in beginning	14.4	33.2	248.7	165.5	
Cash and cash equivalents at end	33.2	248.7	165.5	63.1	

Source: Company, ICICIdirect.com Research

Key ratios		FY17	FY18E	FY19E	FY20E
Per share data (₹)					
Reported EPS		24.3	34.3	41.8	57.4
Cash EPS		64.2	75.9	85.0	102.2
BV per share		309.2	344.6	387.4	445.4
Revenue per share		1,132.8	1,244.3	1,402.3	1,586.5
Cash Per Share		6.7	50.2	33.4	12.8
Operating Ratios (%)					
EBITDA Margin		12.3	12.6	12.8	12.8
PBT / Net Sales		2.4	3.4	4.5	5.5
PAT Margin		2.1	2.8	3.0	3.6
Inventory days		49	45	45	44
Debtor days		100	88	88	88
Creditor days		111	105	106	107
Return Ratios (%)					
RoE		7.9	10.0	10.8	12.9
RoCE		11.8	12.8	14.1	15.4
RoC		10.1	11.5	12.7	13.7
Valuation Ratios (x)					
P/E		24.0	17.0	13.9	10.1
EV / EBITDA		8.9	7.8	7.0	6.3
EV / Net Sales		1.1	1.0	0.9	0.8
Price to Book Value		1.9	1.7	1.5	1.3
Solvency Ratios (x)					
Debt/EBITDA		4.8	4.4	3.9	3.5
Net Debt / Equity		2.1	1.9	1.7	1.5
Current Ratio		2.0	2.0	2.0	2.0
Quick Ratio		1.8	1.8	1.8	1.8

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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