



SPML Infrastructure Is A Value Creator

By [Faisal Humayun](#) – 28 January, 2015

About SPMLINFRA

SPML Infrastructure ([SPMLINFRA](#)) is an infrastructure developer that has managed and implemented over 600 projects across India on an EPC (Engineering, Procurement and Construction), PPP (Public Private Partnership) and BOOT (Build-Own- Operate-Transfer) basis.

The company has an expertise in providing turnkey end to end water and waste water management solutions. During FY14 SPML achieved consolidated Revenue of 1200 Crore and the company currently has an order backlog of 6000 Crore. This article discusses the reasons to be bullish on this Indian stock pick considering a time horizon of 3-5 years.

As of December 2014, SPML had an order book of 6000 Crore. Considering the company's revenue of 1200 Crore in FY14, the current order book provides a revenue visibility of 5 years. However, the order book is front-loaded and the next 2-3 years will be robust in terms of revenue growth for SPML Infrastructure. Further, the company's order book will swell significantly in the coming years as the new government pushes for speedy infrastructure development in the country.

I must also add here that I expect the Indian central bank to cut interest rates by another 75-100 basis points in 2015. This is also likely to be positive for the infrastructure sector and relatively cheap loans will accelerate infrastructure projects. This factor will also aid upside for SPML Infrastructure in 2015.

One of the biggest reasons for liking SPML Infrastructure is the company's focus on water infrastructure. As of December 2014, 76% of the company's order book was related to water infrastructure and 23% was related to the power sector.

SPML Infrastructure has been positioning itself as a water infrastructure provider, and the company has also executed some large water management projects. The water infrastructure business has huge potential in India with the availability of clean drinking water becoming a big challenge in several parts of the country.

Also, projects such as Ganga River cleaning, development of smart cities and the Delhi-Mumbai industrial corridor will provide huge potential for water infrastructure sector. Therefore, SPML has big growth ahead if the government's plans are executed.

Besides the specific focus on water infrastructure and the gains for SPML coming from water related projects, the Indian infrastructure sector needs an investment of around \$1.25 trillion until 2025. The investments will come through the public-private partnership route and SPML will be one of the key beneficiaries of this likely investment.

In the recent past, SPML Infrastructure has also approved a QIP worth INR75 Crore and this will help the company take care of its working capital requirement for 2015. Further, with most of the company's water-related projects having an average EBITDA margin of 12% to 15%, the company is well positioned to generate strong cash flows once the infrastructure activity gains traction in 2015 and 2016.

From a credit perspective, the company's credit rating for long-term bank loans was recently revised to BBB- from an earlier rating of BB+. The revision in credit rating is an indication of improving fundamentals for the company as the economic scenario improves.

In terms of risk, the volatility in crude oil prices can be a big threat. With crude oil trading at below \$50 per barrel, India's inflation is low and the Indian central bank has the room to cut interest rates. However, if oil prices surge again, the inflation threat can impact the company's growth prospects as debt again becomes expensive.

Overall, there are much more positives for SPML Infrastructure than concerns. India's economic growth and infrastructure growth is just picking-up and the best part of the growth for the company is still to come. I believe that the stock has the potential to provide multi-fold returns considering a time horizon of 3-5 years.