

Navkar Corporation

Performance Update

Y/E March (₹ cr)	3QFY17	3QFY16	% yoy	2QFY17	% qoq
Net sales	92	88	3.8	90	1.7
EBITDA	36	37	(2.9)	33	6.4
EBITDA margin (%)	38.8	41.5	(271bp)	37.1	172bp
Adjusted PAT	19	27	(27.2)	22	(13.2)

Source: Company, Angel Research

Navkar Corporation (NCL) reported subdued set of numbers for 3QFY2017. The consolidated top-line grew by ~4% yoy on the back of lower exports, which was impacted on account of demonetization. Moreover, on the operating front, the company reported a margin contraction on account of higher operational costs. The net profit de-grew by ~27% yoy due to subdued sales and poor operating performance.

Top-line grew ~4% yoy: The consolidated top-line reported lower growth i.e. ~4% yoy to ₹92cr led by 2% yoy volume growth, while realizations improved by 2.5% yoy. Realisation at the Vapi terminal dipped to ₹20,500 per TUEs v/s. ₹24,000 per TEUs qoq owing to change in product mix. Further, the volume at JNPT was also impacted by demonetization, which dented the export growth.

PAT de-grew ~27% yoy: On the operating front, the company reported a margin contraction of 271bp yoy to 38.8% on account of higher operational costs. As a result, the EBITDA de-grew by ~3% yoy to ₹36cr. Net profit de-grew by ~27% yoy on the back of subdued sales and poor operating performance.

Outlook and Valuation: We estimate NCL to post a revenue CAGR of ~27% and PAT CAGR of ~31% over FY2016-18E. At the current level, the stock is trading at 14.9x its FY2018E earnings. Historically, NCL has consistently witnessed growth at JNPT and increased its utilisation from 68% in FY2012 to 87% in FY2015 by leveraging on its rail advantage during periods when JNPT posted flattish volume growth. Going forward, we expect NCL's utilisation to improve and the company to garner good chunk of business over the next three to four years due to its rail advantage at both JNPT and Vapi. **We maintain our Buy recommendation on the stock with a target price of ₹265.**

Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Net sales	349	329	347	369	561
% chg	4.8	(5.9)	5.6	6.2	52.0
Adj. Net profit	90	68	95	99	164
% chg	58.7	(24.0)	39.0	3.6	66.7
EBITDA margin (%)	35.5	40.7	43.2	42.9	42.3
EPS (₹)	6.3	4.8	6.7	6.9	11.5
P/E (x)	27.3	35.8	25.8	24.9	14.9
P/BV (x)	5.7	3.3	1.9	1.8	1.6
RoE (%)	21.0	9.1	7.3	7.1	10.5
RoCE (%)	12.8	9.1	7.5	7.5	10.8
EV/Sales (x)	8.2	9.1	7.5	7.7	5.0
EV/EBITDA (x)	23.1	22.4	17.4	17.8	11.9

Source: Company, Angel Research; Note: CMP as of February 10, 2016

BUY

CMP	₹170
Target Price	₹265

Investment Period	12 Months
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Stock Info

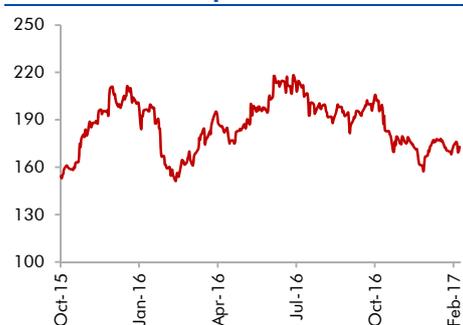
Sector	Logistics
Market Cap (₹ cr)	2,464
Net Debt	161
Beta	0.6
52 Week High / Low	224 / 151
Avg. Daily Volume	28,021
Face Value (Rs)	10
BSE Sensex	28,334
Nifty	8,794
Reuters Code	NA
Bloomberg Code	NACO@IN

Shareholding Pattern (%)

Promoters	72.9
MF / Banks / Indian Fls	15.1
FII / NRIs / OCBs	7.8
Indian Public / Others	4.3

Abs. (%)	3m	1yr	3yr
Sensex	3.0	19.3	39.3
NCL	(10.2)	(6.2)	NA

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 Performance

Y/E March (₹ cr)	3QFY17	3QFY16	% yoy	2QFY17	% qoq	9MFY17	9MFY17	% chg
Net Sales	92	88	3.8	90	1.7	272	256	6.2
Staff Costs	9	7	21.2	8	12.0	24	19	26.5
(% of Sales)	9.7	8.3	139	8.8	89	8.8	7.4	141
Other Expenses	47	44	6.6	49	(3.2)	141	126	12.0
(% of Sales)	51.5	50.2	132	54.1	(261)	51.8	49.1	265
Total Expenditure	56	52	8.6	57	(1.1)	165	145	13.9
Operating Profit	36	37	(2.9)	33	6.4	107	111	(3.7)
OPM	38.8	41.5		37.1		39.4	43.5	
Interest	11	10	10.6	6	85.5	28	41	(31.5)
Depreciation	5	5	5.7	5	0.4	15	15	6.4
Other Income	2	10	(75.6)	3	(25.6)	10	17	(39.8)
PBT (excl. Ext Items)	22	32	(31.5)	26	(15.1)	73	72	2.0
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	22	32	(31.5)	26	(15.1)	73	72	2.0
(% of Sales)	23.7	35.9		28.4		27.0	28.1	
Provision for Taxation	2	5		3		8.07	8.66	(6.8)
(% of PBT)	10.2	15.6		12.2		11.0	12.0	
Reported PAT	19	27	(27.2)	22	(13.2)	65	63	3.2
PATM	21.2	30.3		24.9		24.0	24.8	
Reported PAT	19	27	(27.2)	22.41	(13.2)	65	63	3.2
PATM	21.2	30.3		24.9		24.0	24.8	

Source: Company, Angel Research

Investment Arguments

Upcoming ICD to provide an edge

The Vapi region has a huge potential as it is a well developed industrial area. As per the Management and industry sources, the Vapi region accounts for close to 27% of container volumes at JNPT. We believe that the company's inland container depot (ICD; with rail connectivity) at Vapi will enable NCL to garner a good portion of the business from the region. At present, imports headed for the region have to get custom cleared at container freight station (CFS)/ICD at JNPT and are then transported via road. With rail transport being a more economical option compared to road, the imports should head directly to Vapi ICD. As for exports from Vapi region, a large portion (~60%) is stuffed at factory and transported to JNPT. However, the balance 40% or ~170,000 TEUs (less-than-container load [LCL]), which are being transported via road and consolidated at JNPT, can be consolidated at ICD. Once the scale advantages kick in, and given the rail advantage, the company can also cater to some portion of bulkier factory stuffed cargo.

Capacity enhancement at Somathane to aid revenue growth

The company has managed to outperform its peers in the region by attracting volumes on the back of its rail advantage. NCL has been facing capacity constraints at JNPT and is forced to reject certain bulk commodities like PTA, Fiber, Scrap, Marble, etc. Although the current South Gujarat volume of NCL (~70,000 TEUs) is expected to shift to the Vapi ICD, the company will now be able to handle these bulk commodities and effectively utilize its extended capacity. NCL will now also handle domestic traffic, which it had been rejecting earlier, thus aiding growth.

Logistics park at Vapi to be an additional revenue driver

The logistics park will be a one-stop solution for importers and exporters, providing a host of warehousing and other value added services. Its close proximity to one of the largest industrial clusters in India augurs well for NCL.

Utilizing real estate for debt reduction

NCL has received an approval for the monetization of 45 acres land in Panvel through residential development format. In this, NCL will appoint a developer and in turn will receive a share of ~2 mn sqft of sale area with an expected inflow of ₹6bn. This will be utilized to reduce debt.

Outlook and Valuation

We estimate NCL to post a revenue CAGR of ~27% and PAT CAGR of ~31% over FY2016-18E. At the current level, the stock is trading at 14.9x its FY2018E earnings. Historically, NCL has consistently witnessed growth at JNPT and increased its utilisation from 68% in FY2012 to 87% in FY2015 by leveraging on its rail advantage during periods when JNPT posted flattish volume growth. Going forward, we expect NCL's utilization to improve and the company to garner good chunk of business over the next three to four years due to its rail advantage at both JNPT and Vapi. **We maintain our Buy recommendation on the stock with a target price of ₹265.**

Downside risks to our estimates include

- The company is exposed to currency risk with foreign currency debt of ₹194cr on its balance sheet (as of 31-03-2015). The company uses Dollar call options to hedge against Dollar appreciation and as per the term, the foreign currency debt will get converted to INR debt upon Dollar rate hitting the strike price. In this event, the interest rate on the INR debt will be at ~12%.
- Currently the company is paying lower taxes, as it is enjoying tax benefits for its CFS operations. Once the exemption period is over, the company will have to pay higher taxes, which could impact its earnings growth.
- Delay in capacity expansion and lower than expected utilization of existing CFS as well as existing players increasing their capacity at JNPT could impact the profitability of the company. Delay in capacity enhancement at JNPT can also impact the top-line.
- The company operates a private freight terminal (PFT) at JNPT which has helped the company in increasing its volumes. Lapse in agreement with the Indian Railways will lead to the company being unable to operate its PFT.

Company Background

NCL is a CFS operator with three CFSs, Ajivali CFS I and Ajivali CFS II at Ajivali and one at Somathane. All of its CFS units are strategically located with close proximity to JNPT, which is the largest container port in India. As of May 31, 2015, NCL's CFSs had an aggregate installed handling capacity of 310,000 TEUs per annum. It has a PFT which facilitates loading and unloading of cargo from container trains operating between Somathane CFS and JNPT to transport domestic cargo to and from inland destinations on the Indian rail network. As of May 31, 2015, it also owns and operates 516 trailers for the transportation of cargo between its CFSs and the JN Port by road. The company offers services like cargo storage facilities at CFSs, packing, labeling/bar-coding, palletizing, fumigation and other related activities. It also provides warehousing facilities for which it occupies an aggregate area of 500,000 sq ft.

Exhibit 2: CFS details

Particulars	Ajivali CFS I	Ajivali CFS II	Somathane CFS
Location	Ajivali village, Panvel	Ajivali village, Panvel	Somathane/Ashte village, Panvel
Area Custom Notified	135,156 sq. ft.	428,400 sq. ft.	1,073,224.35 sq. ft.
Operational since	May 12, 2008	May 18, 2006	May 11, 2009
Installed Capacity per annum	25,000 TEUs	65,000 TEUs	220,000 TEUs
Bonded warehouse	-	27,641 sq. feet	33,141 sq. feet
Reefer Points	16	24	52
Temperature controlled chambers	-	500 m	-
Hazardous cargo	-	Authorized to handle, store and deliver hazardous cargo up to the total installed capacity per annum	Authorized to handle, store and deliver hazardous cargo, up to the total installed capacity per annum
Connectivity	Road	Road	Rail and road

Source: Company, Angel Research

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Total operating income	349	329	347	369	561
% chg	4.8	(5.9)	5.6	6.2	52.0
Total Expenditure	225	195	197	211	324
Operating Expenses	117	138	144	153	234
Purchases of Traded Goods	60	-	-	-	-
Personnel Expenses	19	22	25	28	44
Others Expenses	29	34	29	30	45
EBITDA	124	134	150	158	237
% chg	21.9	7.9	12.2	5.4	49.9
(% of Net Sales)	35.5	40.7	43.2	42.9	42.3
Depreciation & Amortisation	13	15	19	21	23
EBIT	111	119	131	137	214
% chg	21.3	6.8	10.2	5.0	55.9
(% of Net Sales)	31.8	36.1	37.7	37.2	38.2
Interest & other Charges	33	26	23	33	34
Other Income	4	2	23	12	14
(% of PBT)	4.7	2.3	17.7	10.4	7.0
Share in profit of Associates	-	-	-	-	-
Recurring PBT	82	94	131	116	193
% chg	28.4	15.3	38.6	(11.4)	66.7
Prior Period & Extra. Exp./ (Inc.)	-	-	-	-	-
PBT (reported)	82	94	131	116	193
Tax	9	12	19	17	29
(% of PBT)	10.8	12.4	14.6	15.0	15.0
PAT (reported)	73	83	112	99	164
Extraordinary Items	17	(14)	(17)	-	-
ADJ. PAT	90	68	95	99	164
% chg	58.7	(24.0)	39.0	3.6	66.7
(% of Net Sales)	25.8	20.8	27.4	26.7	29.3
Basic EPS (₹)	6.3	4.8	6.7	6.9	11.5
Fully Diluted EPS (₹)	6.3	4.8	6.7	6.9	11.5
% chg	58.7	(24.0)	39.0	3.6	66.7

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	21	112	145	145	145
Reserves & Surplus	407	638	1,153	1,252	1,416
Shareholders' Funds	428	750	1,298	1,397	1,561
Minority Interest	-	-	-	-	-
Total Loans	437	555	452	440	420
Deferred Tax Liability	28	33	33	33	33
Total Liabilities	893	1,338	1,783	1,870	2,014
APPLICATION OF FUNDS					
Gross Block	699	1,133	1,256	1,529	1,549
Less: Acc. Depreciation	43	59	79	100	123
Net Block	656	1,073	1,177	1,429	1,426
Capital Work-in-Progress	44	27	27	27	27
Investments	20	5	-	-	-
Current Assets	198	253	603	430	587
Inventories	-	2	2	3	5
Sundry Debtors	76	77	83	89	135
Cash	1	1	290	69	49
Loans & Advances	45	48	52	66	101
Other Assets	76	126	175	203	297
Current liabilities	25	22	25	18	28
Net Current Assets	172	231	577	412	559
Deferred Tax Asset	1	1	1	1	1
Mis. Exp. not written off	-	-	-	-	-
Total Assets	893	1,338	1,783	1,870	2,014

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	99	80	131	116	193
Depreciation	13	15	19	21	23
Change in Working Capital	(29)	7	(56)	(56)	(167)
Interest / Dividend (Net)	33	26	23	33	34
Direct taxes paid	(16)	(22)	(19)	(17)	(29)
Others	(17)	18	-	-	-
Cash Flow from Operations	82	123	98	97	55
(Inc.)/ Dec. in Fixed Assets	(93)	(209)	(123)	(273)	(20)
(Inc.)/ Dec. in Investments	-	15	5	-	-
Cash Flow from Investing	(93)	(194)	(118)	(273)	(20)
Issue of Equity	35	-	453	-	-
Inc./(Dec.) in loans	10	97	(103)	(12)	(20)
Dividend Paid (Incl. Tax)	-	-	-	-	-
Interest / Dividend (Net)	1	(27)	413	(33)	(34)
Cash Flow from Financing	10	71	310	(45)	(54)
Inc./(Dec.) in Cash	(1)	0	289	(221)	(20)
Opening Cash balances	2	1	1	290	69
Closing Cash balances	1	1	290	69	49

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	27.3	35.8	25.8	24.9	14.9
P/CEPS	28.5	25.0	18.7	20.5	13.1
P/BV	5.7	3.3	1.9	1.8	1.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	8.2	9.1	7.5	7.7	5.0
EV/EBITDA	23.1	22.4	17.4	17.8	11.9
EV / Total Assets	3.1	2.2	1.4	1.5	1.4
Per Share Data (₹)					
EPS (Basic)	6.3	4.8	6.7	6.9	11.5
EPS (fully diluted)	6.3	4.8	6.7	6.9	11.5
Cash EPS	6.0	6.9	9.2	8.4	13.1
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	30.0	52.6	91.0	97.9	109.5
Returns (%)					
ROCE	12.8	9.1	7.5	7.5	10.8
Angel ROIC (Pre-tax)	13.2	9.1	9.0	7.8	11.1
ROE	21.0	9.1	7.3	7.1	10.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.5	0.3	0.3	0.2	0.4
Inventory / Sales (days)	-	2	2	3	3
Receivables (days)	80	86	87	88	88
Payables (days)	7	7	5	4	4
Wc cycle (ex-cash) (days)	72	81	84	87	87

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Navkar Corporation

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)