Navkar Corporation

Performance Update

Y/E March (₹ cr)	4QFY2016	4QFY2015	% chg (yoy)	3QFY2016	% chg (qoq)
Net sales	**91**	**84**	**8.5**	**88**	**3.6**
EBITDA	38	28	*38.4*	37	*3.3*
EBITDA margin (%)	*41.9*	*32.8*	*904bp*	*42.0*	*(9)bp*
Adjusted PAT	**26**	**12**	**107.4**	**29**	**(10.4)**

Source: Company, Angel Research

Navkar Corporation (Navkar) reported a good set of numbers for 4QFY2016. The consolidated top-line grew by 8.5% yoy. On the operating front, the company reported a margin expansion on account of sharp decline in other operating expenses. The net profit grew by ~107% yoy due to significantly higher other income and a better operating performance.

Top-line grew 8.5% yoy: The consolidated top-line grew by 8.5% yoy to ~₹91cr led by higher volumes and improvement in realizations. For 4QFY2016, the volumes grew by 18.5% to 81,183 TEUs (twenty-foot equivalent units) which included 2,000 TEUs from Vapi. Empty containers handled stood at 3,000 TEUs against 5,000 TEUs handled in 3QFY2016 which improved the realizations. The number of trains ran by the company increased by 14 over the past quarter to 220 trains. For FY2016, the volumes grew by ~15% to ~3,08,000 TEUs and the company ran 765 trains during the year with the share of rail increasing to 22% vs 15% in FY2015. The import-export mix remained unchanged at 55:45.

PAT grew ~107% yoy: On the operating front, the company reported a margin expansion of 904bp yoy to 41.9% on account of the sharp decline in other operating expenses by 816bp yoy to 51.1% of sales. As a result, the EBITDA grew by 38.4% yoy to ₹38cr. Aided by a better operating performance and higher other income, the net profit grew by ~107% yoy to ~₹26cr.

Outlook and Valuation: We estimate Navkar to post a revenue CAGR of 32.7% and PAT CAGR of 31.3% over FY2016-18E. We have factored in lower utilization levels of 34.7% and 42.6% for FY2017E and FY2018E, respectively. At the current levels, the stock is trading at 17.4x its FY2018E earnings. Historically, Navkar has consistently grown 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 Navkar's utilizations to improve; we expect the company to be able to garner a 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**	**408**	**612**
% chg	*4.8*	*(5.9)*	*5.6*	*17.6*	*49.7*
Adj. Net profit	**90**	**68**	**95**	**97**	**164**
% chg	*58.7*	*(24.0)*	*39.0*	*1.5*	*69.8*
EBITDA margin (%)	35.5	40.7	43.2	42.9	42.3
EPS (₹)	**6.3**	**4.8**	**6.7**	**6.8**	**11.5**
P/E (x)	31.7	41.7	30.0	29.5	17.4
P/BV (x)	6.7	3.8	2.2	2.0	1.8
RoE (%)	21.0	9.1	7.3	6.9	10.5
RoCE (%)	12.8	9.1	7.5	8.1	11.6
EV/Sales (x)	9.4	10.3	8.7	7.9	5.3
EV/EBITDA (x)	26.3	25.4	20.1	18.4	12.4

Source: Company, Angel Research; Note: CMP as of May 31, 2016

BUY

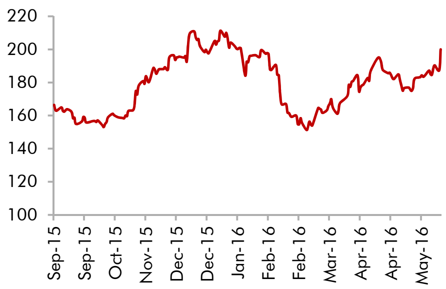
CMP	₹200
Target Price	₹265
Investment Period	12 Months

Stock Info	
Sector	Logistics
Market Cap (₹ cr)	2,851
Net Debt	161
Beta	0.6
52 Week High / Low	221 / 151
Avg. Daily Volume	130,794
Face Value (₹)	10
BSE Sensex	26,668
Nifty	8,160
Reuters Code	NA
Bloomberg Code	NACO@IN

Shareholding Pattern (%)	
Promoters	72.9
MF / Banks / Indian FIs	16.6
FII / NRIs / OCBs	6.5
Indian Public / Others	4.1

Abs. (%)	3m	1yr	3yr
Sensex	15.9	4.2	35.0
NCL	32.2	NA	NA

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 Performance

Y/E March (₹ cr)	4QFY16	4QFY15	*% yoy*	3QFY16	*% qoq*	FY16	FY15	*% chg*
Net Sales	91	84	8.5	88	3.6	347	329	5.6
Staff Costs	6	7	*(3.5)*	7	*(7.2)*	25	22	*11.4*
(% of Sales)	*7.0*	*7.9*	*(88)bp*	*7.8*	*(81)bp*	*7.1*	*6.8*	*37bp*
Other Expenses	47	50	*(6.4)*	44	*5.4*	172	173	*(0.1)*
(% of Sales)	*51.1*	*59.3*	*(816)bp*	*50.2*	*90bp*	*49.7*	*52.5*	*(287)bp*
Total Expenditure	53	57	*(6.1)*	51	*3.7*	197	195	*1.2*
Operating Profit	38	28	*38.4*	37	*3.3*	150	134	*12.1*
OPM	*41.9*	*32.8*		*42.0*		*43.2*	*40.7*	
Interest	7	4	*89.8*	7	*(6.0)*	40	41	*(2.5)*
Depreciation	5	4	*22.0*	5	*(1.3)*	19	15	*27.0*
Other Income	7	0	*1,232.2*	10	*(34.7)*	23	2	*977.6*
PBT (excl. Ext Items)	33	21	*60.9*	35	*(4.9)*	114	80	*42.6*
Ext (Income)/Expense	-	-				-	-	
PBT (incl. Ext Items)	33	21	*60.9*	35	*(4.9)*	114	80	*42.6*
(% of Sales)	*36.2*	*24.4*		*39.5*		*32.9*	*24.4*	
Provision for Taxation	7	8		6		19	12	*64.1*
(% of PBT)	*22.1*	*39.5*		*17.3*		*16.7*	*14.6*	
Reported PAT	26	12	*107.4*	29	*(10.4)*	95	68	*39.0*
PATM	*28.2*	*14.8*		*32.6*		*27.4*	*20.8*	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	26	12	*107.4*	29	*(10.4)*	95	68	*39.0*
PATM	*28.2*	*14.8*		*32.6*		*27.4*	*20.8*	

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 Navkar 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 is being transported via road and consolidated at JNPT, can be consolidated at the 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 outgrow its peers in the region by attracting volumes on the back of its rail advantage. Navkar 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 Navkar (~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. Navkar will now also be handling 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 Navkar.

Outlook and Valuation

We estimate Navkar to post a revenue CAGR of 32.7% and PAT CAGR of 31.3% over FY2016-18E. We have factored in lower utilization levels of 34.7% and 42.6% for FY2017E and FY2018E, respectively. At the current levels, the stock is trading at 17.4x its FY2018E earnings. Historically, Navkar has consistently grown 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 Navkar's utilizations to improve; we expect the company to be able to garner a 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, with it getting 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

Navkar 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 in close proximity to JNPT which is the largest container port in India. As of May 31, 2015, Navkar'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 and 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**	**408**	**612**
% chg	*4.8*	*(5.9)*	*5.6*	*17.6*	*49.7*
Total Expenditure	**225**	**195**	**197**	**233**	**353**
Operating Expenses	117	138	144	170	256
Purchases of Traded Goods	60	-	-	-	-
Personnel Expenses	19	22	25	31	48
Others Expenses	29	34	29	33	49
EBITDA	**124**	**134**	**150**	**175**	**259**
% chg	*21.9*	*7.9*	*12.2*	*16.7*	*47.6*
(% of Net Sales)	*35.5*	*40.7*	*43.2*	*42.9*	*42.3*
Depreciation& Amortisation	13	15	19	26	29
EBIT	**111**	**119**	**131**	**149**	**229**
% chg	*21.3*	*6.8*	*10.2*	*13.8*	*54.2*
(% of Net Sales)	*31.8*	*36.1*	*37.7*	*36.4*	*37.5*
Interest & other Charges	33	26	23	40	41
Other Income	4	2	23	5	5
(% of PBT)	*4.7*	*2.3*	*17.7*	*4.4*	*2.6*
Share in profit of Associates	-	-	-	-	-
Recurring PBT	**82**	**94**	**131**	**114**	**193**
% chg	*28.4*	*15.3*	*38.6*	*(13.1)*	*69.8*
Prior Period & Extraord. Exp./(Inc.)					-
PBT (reported)	**82**	**94**	**131**	**114**	**193**
Tax	9	12	19	17	29
(% of PBT)	*10.8*	*12.4*	*14.6*	*15.0*	*15.0*
PAT (reported)	**73**	**83**	**112**	**97**	**164**
Extraordinary Items	17	(14)	(17)	-	-
ADJ. PAT	**90**	**68**	**95**	**97**	**164**
% chg	*58.7*	*(24.0)*	*39.0*	*1.5*	*69.8*
(% of Net Sales)	*25.8*	*20.8*	*27.4*	*23.6*	*26.8*
Basic EPS (₹)	**6.3**	**4.8**	**6.7**	**6.8**	**11.5**
Fully Diluted EPS (₹)	**6.3**	**4.8**	**6.7**	**6.8**	**11.5**
% chg	*58.7*	*(24.0)*	*39.0*	*1.5*	*69.8*

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	21	112	145	145	145
Reserves& Surplus	407	638	1,153	1,250	1,414
Shareholders' Funds	**428**	**750**	**1,298**	**1,395**	**1,559**
Minority Interest	-	-	-	-	-
Total Loans	437	555	452	440	420
Deferred Tax Liability	28	33	33	33	33
Total Liabilities	**893**	**1,338**	**1,783**	**1,868**	**2,012**
APPLICATION OF FUNDS					
Gross Block	699	1,133	1,256	1,529	1,549
Less: Acc. Depreciation	43	59	79	105	134
Net Block	**656**	**1,073**	**1,177**	**1,424**	**1,415**
Capital Work-in-Progress	44	27	27	27	27
Investments	20	5	-	-	-
Current Assets	**198**	**253**	**603**	**442**	**610**
Inventories	-	2	2	2	3
Sundry Debtors	76	77	83	97	146
Cash	1	1	290	69	52
Loans & Advances	45	48	52	69	104
Other Assets	76	126	175	204	306
Current liabilities	**25**	**22**	**25**	**26**	**42**
Net Current Assets	**172**	**231**	**577**	**416**	**569**
Deferred Tax Asset	1	1	1	1	1
Mis. Exp. not written off	-	-	-	-	-
Total Assets	**893**	**1,338**	**1,783**	**1,868**	**2,012**

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	99	80	131	114	193
Depreciation	13	15	19	26	29
Change in Working Capital	(29)	7	(56)	(60)	(170)
Interest / Dividend (Net)	33	26	23	40	41
Direct taxes paid	(16)	(22)	(19)	(17)	(29)
Others	(17)	18	-	-	-
Cash Flow from Operations	**82**	**123**	**98**	**103**	**64**
(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	(40)	(41)
Cash Flow from Financing	**10**	**71**	**310**	**(52)**	**(61)**
Inc./(Dec.) in Cash	(1)	0	289	(222)	(17)
Opening Cash balances	**2**	**1**	**1**	**290**	**69**
Closing Cash balances	**1**	**1**	**290**	**69**	**52**

Key Ratios

Y/E March	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	31.7	41.7	30.0	29.5	17.4
P/CEPS	33.1	29.1	21.8	23.2	14.8
P/BV	6.7	3.8	2.2	2.0	1.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	9.4	10.3	8.7	7.9	5.3
EV/EBITDA	26.3	25.4	20.1	18.4	12.4
EV / Total Assets	3.6	2.5	1.7	1.7	1.6
Per Share Data (₹)					
EPS (Basic)	6.3	4.8	6.7	6.8	11.5
EPS (fully diluted)	6.3	4.8	6.7	6.8	11.5
Cash EPS	6.0	6.9	9.2	8.6	13.6
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	30.0	52.6	91.0	97.8	109.3
Returns (%)					
ROCE	12.8	9.1	7.5	8.1	11.6
Angel ROIC (Pre-tax)	13.2	9.1	9.0	8.4	11.9
ROE	21.0	9.1	7.3	6.9	10.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.5	0.3	0.3	0.3	0.4
Inventory / Sales (days)	-	2	2	2	2
Receivables (days)	80	86	87	87	87
Payables (days)	7	7	5	4	4
Wc cycle (ex-cash) (days)	72	81	84	85	85

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Disclosure of Interest Statement	**Navkar Corporation**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

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)*