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Navkar Corporation

Capacity Expansion to Augment Revenues; SUBSCRIBE

Brownfield expansion plan in Somathane CFS to trigger growth for Navkar Corporation (NCL): Currently, the company is increasing capacity of Somathane CFS from 2,20,000 TEUs to 4,72,889 TEUs which would be funded through the proceeds of the upcoming IPO. The additional capacities are expected to commence operating by 2HFY2017. As of now, the company is operating its existing CFS capacity at more than 85% utilization level. Further, with the Somathane CFS having a private freight railway terminal (PFT) along with modern infrastructure, we believe that this would be an added benefit for the company.

Greenfield expansion plan of a logistics park + ICD to boost company's revenues: NCL is setting up a fully-integrated logistics park as a one-stop solution for importers and exporters. The company will operate this logistics park, spread across 28 acres (90% of the area is useable), through three models - (1) value basis, (2) space basis and (3) quantity basis. This facility has a huge potential to generate strong top-line growth for the company. The company would be spending around ~₹315cr to develop the logistics park and it would be funded through the proceeds of the upcoming IPO. The logistics park is expected to commence commercial operation by 2HFY2017.

Further, NCL is also setting up a new inland container depot (ICD) at Umergaon, Valsad district (near Vapi), Gujarat, over 60 acres of land. The ICD is being developed by its subsidiary – Navkar Terminals Ltd (NTL) and is expected to complete by June 2016. The project is being funded through debt as well as internal accruals (NCL has already spent more than ₹400cr towards gross block in FY2015). This ICD will have a capacity of ~4,74,000 TEUs. Vapi is an industrial area supporting high traffic; thus, we believe that the company would get better utilization and there would be strong potential to generate significant revenue, going forward.

Potential for improvement in ROE: Although the company's RoE is currently lower, we believe there is substantial potential for it to improve going forward. This would be owing to the following reasons: - (a) The company would be investing around ~₹115cr from the IPO proceeds towards capacity expansion. This would result in an increase in capacity by ~81% at a low investment cost. As a result, we expect the ROE to improve from the current 9.8% to 15.7% post expansion. (b) The company has already allocated funding for the upcoming ICD at Valsad, Gujarat, which resulted in an increase in gross block by more than `400cr in FY2015. So on excluding this funding amount, the ROE would be higher compared to our calculation. (c) The upcoming logistics park will add to the top-line and contribute towards ROE expansion.

Outlook and Valuation: Currently, NCL looks slightly expensive in terms of PE valuation. Going forward, in our view, the company will be less expensive on a PE valuation basis on the back of exponential growth in revenue with strong expansion plans for existing CFSs (capacity of CFSs to increase by 81% to 5,62,889 TEUs at a low investment cost). The opening of the new ICD (4,74,000 TEUs) and the logistics park will also add to the revenues, thus leading to a higher EPS for the company. On the Price/Book value front, the company is valued at 2.3x (at the upper end of the price band; Pre-IPO book value per share); in terms of PE based valuation, the company is valued at 23.2x (at the upper end of the price band; Pre-IPO EPS) on the basis of FY2015 numbers. **Considering future growth potential of the company, we recommend a Subscribe on the issue from a longer term perspective.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015
Net Sales	**333**	**349**	**329**
Net Profit	**57**	**90**	**73**
OPM (%)	30.5	35.5	36.4
EPS (₹)	**5.2**	**8.2**	**6.7**
P/E (x)	30.0	18.9	23.2
ROE (%)	18.4	20.8	9.8
P/BV (x)	5.5	3.9	2.3
EV/EBITDA (x)	20.2	16.5	18.0

Source: Company, Angel Research Note: In FY15, the top-line declined due to discontinuation of the agro business; Valuation ratios calculated at the upper end of price band; o/s no. of share considered as of FY15.

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Issue Open: August 24, 2015
Issue Close: August 26, 2015

Issue Details

Face Value: ₹10	
Present Eq. Paid up Capital: ₹109.7cr	
Fresh Issue**: 3.3cr Shares	
Offer for Sale**: 0.58cr Shares	
Post Eq. Paid up Capital: ₹142.6cr	
Market Lot: 95 Shares	
Fresh Issue (amount): ₹510cr	
Offer for sale (amount): ₹90cr	
Price Band: ₹147-155	
Post-issue implied mkt. cap ₹2,096cr* - 2,210 cr**	

*Note:*at Lower price band and **Upper price band*

Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

Post Issue Shareholding Pattern(%)

Promoters Group	72.9
MF/Banks/Indian FIs/FIIs/Public & Others	27.1

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Company background

Navkar Corporation Ltd (NCL) is a CFS operator having three units – Ajivali CFS I and Ajivali CFS II at Ajivali, and Somathane CFS at Somathane. All of the three CFS units are located in close proximity to the Jawaharlal Nehru Port, India's largest container port. As of March 2015, the company's aggregate installed handling capacity stood at 310,000 TEUs per annum. The company also 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. Further, the company owns and operates a private railway freight terminal equipped with 461 trailers for the transportation of cargo between CFSs and the Jawaharlal Nehru Port.

Issue detail

The company is raising money through an IPO (fresh issue+ offer for sale) via the book building process aggregating to ₹600cr. This includes offer for sale to ₹90cr shares and could be subscribed to in the price band of ₹147-155 (face value of shares: ₹10/- each).

Exhibit 1: Shareholding pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter group	10,97,04,798	100.0	10,38,98,346	72.9
Others	0		3,87,09,677	27.1
Total	10,97,04,798	100.0	14,26,08,024	100.0

Source: Company, Angel Research Note: No. of share calculated at the upper end of price band

Objects of the offer

- Capacity enhancement of the Somathane CFS.
- Development of the non-notified areas of CFSs.
- Establishment of a logistics park at Valsad (near Vapi, Gujrat).

Key investment arguments

Capacity expansion to trigger growth

NCL operates three CFSs, of which, two CFSs are in Ajivali and one in Somathane village in Panvel, Maharashtra. All the three CFSs are in close proximity to India's largest container port - Jawaharlal Nehru Port. The company is raising ₹510cr through IPO for capacity expansion.

Exhibit 2: Expansion plan

	FY2015	FY2016E	FY2017E
Ajivali (TEUs)			
CFS I	25,000	25,000	25,000
CFS II	65,000	65,000	65,000
Somathane (TEUs)			
CFS	2,20,000	2,20,000	4,72,889
logistics park at Valsad (near Vapi) Sq. ft			11,00,000
Subsidiary -Navkar Terminals Ltd (NTL)- ICD (TEUs)			4,74,000

Source: Company, Angel Research

Somathane CFS

NCL is expanding its facilities and infrastructure to service the growing container freight traffic in India. It is enhancing its existing capacity and operational efficiency by increasing the stacking capacity at the Somathane CFS through technology upgrade. Currently, the company has a capacity of handling 2,20,000 TEUs, which would go up to 4,72,889 TEUs, post expansion. The company would be spending around ~₹115cr (raised through the upcoming IPO) towards the same. The additional capacity is expected to start commercial operation by 2HFY2017.

Going forward, we believe that the company would be able to utilise the additional capacity as the Somathane CFS has a private freight railway terminal along with modern infrastructure.

Logistics park at Valsad (near Vapi, Gujrat)

The company is setting up a fully-integrated logistics park as a one-stop solution for importers and exporters, which will provide a host of warehousing and other value added services, including cold storage facility for perishable goods, a container maintenance, repair, servicing and cleaning yard, an empty container yard, and garage facility with a workshop for maintenance of vehicles. The logistics park is being established nearby its upcoming inland container depot at Umergaon, Valsad district (near Vapi), Gujarat. The company will operate this logistics park, spread across 28 acres of land, through three models - (1) value basis, (2) space basis and (3) quantity basis. This facility has a huge potential to generate strong top-line growth for the company. The company would be spending around ~₹315cr to develop the logistics park and it would be funded through the proceeds of the upcoming IPO. The logistics park is expected to commence commercial operation by 2HFY2017.

Inland Container Depot being developed by subsidiary - NTL

The company is also setting up a new ICD at Umergaon, Valsad district (near Vapi), Gujarat, over 60 acres of land. The ICD is being developed by its subsidiary - NTL and is expected to complete by June 30, 2016. The project is being funded through debt as well as internal accruals. This ICD will have a capacity of ~4,74,000 TEUs.

Vapi is an industrial area supporting high traffic; thus, we believe that the company would get better utilization and there would be strong potential to generate significant revenue, going forward.

Potential for substantial improvement in ROE

Our preliminary analysis shows there is high potential for improvement in the company's ROE going forward, owing to the following reasons: -

Exhibit 3: Calculation of expected ROE

	Current	Maximum revenue potential post expansion
Capacity (TEUs)	3,10,000	5,62,889
Utilisation (%)	87	100
Volume (TEUs)	2,68,836	5,62,889
Net Revenue (₹ cr)	323	676
Average Realisation	12,014	12,014
PAT (₹ cr)	73	135
Margin (%)	22.6	20.0
Net worth	744	859
Gross Block	1,133	1,248
ROE	9.8%	15.7%

Source: Company, Angel Research

(1) The company would be investing around ~₹115cr from the IPO proceeds towards capacity expansion. This would result in an increase in capacity by ~81%. As a result, we expect the ROE to improve from the current 9.8% to 15.7% post expansion

(2) The company has already allocated funding for the upcoming ICD at Valsad, Gujarat, which resulted in an increase in gross block by more than ₹400cr in FY2015. This additional capex will contribute to the top-line and bottom-line only by 2HFY2017. So on excluding this funding amount, the ROE would be higher compared to our calculation.

(3) Further, the company is also setting up a new logistics park which will contribute additional revenues for the company.

Strategically located CFSs in close proximity to Jawaharlal Nehru Port

The company's CFSs are strategically located at Ajivali and Somatane villages in Panvel, Maharashtra. These are in close proximity to the Jawaharlal Nehru Port, which handles 55.7% of all cargo handled at major ports in India. The proximity to Jawaharlal Nehru Port enables the company to capitalise on the large volume of container cargo traffic handled by the port. The company has entered into an agreement with Central Railway to operate a PFT at its Somatane CFS, which helps the company in transporting cargo by rail between Somatane CFS and Jawaharlal Nehru Port, as well as facilitates transportation of cargo to and from inland destinations on the Indian rail network.

Dedicated infrastructure to handle cargo

The company's three CFSs and PFT operations are spread over an area of 3.59mn sq ft, of which 1.63 million sq ft has been notified as a customs area. NCL's CFSs have an aggregate installed handling capacity of 310,000 TEUs per annum. As of May 31, 2015, the company also owned and operated 516 trailers, most of which are fitted with RFID and GPS tracking systems for the movement of cargo between CFSs and the Jawaharlal Nehru Port. At its CFSs, the company has deployed 36 forklifts, 21 reach stackers and six heavy duty cranes to load and unload freight containers from trains and trailers. NCL also owns five weighbridges, each with a capacity of 100MT, to weigh cargo loaded on to trailers; and an in-motion weighbridge with a capacity of 120MT, to weigh rail wagons.

Outlook and Valuation

NCL has reported a revenue (excluding agro export business) CAGR of ~19% and PAT CAGR of ~ 16% over FY2012-15 on the back of high volume growth, with its CFSs located close to the Jawaharlal Nehru Port (a high traffic port in India). Going forward, we expect the company to report strong numbers on back of robust capacity expansion at its existing CFSs. Also, the company is setting up a new logistics park and ICD, which would generate additional revenue growth for the company.

Currently, NCL looks slightly expensive in terms of PE valuation. Going forward, in our view, the company will be less expensive on a PE valuation basis on the back of exponential growth in revenue with strong expansion plans for existing CFSs (capacity of CFSs to increase by 81% to 5,62,889 TEUs at a low investment cost). The opening of the new ICD (4,74,000 TEUs) and the logistics park will also add to the revenues, thus leading to a higher EPS for the company. On the Price/Book value front, the company is valued at 2.3x (at the upper end of the price band; Pre-IPO book value per share); in terms of PE based valuation, the company is valued at 23.2x (at the upper end of the price band; Pre-IPO EPS) on the basis of FY2015 numbers. **Considering future growth potential of the company, we recommend a Subscribe on the issue from a longer term perspective.**

Key investment concerns

1) The company is exposed to currency risk with has a foreign currency debt of ₹194cr on its balance sheet (as of 31-03-2015).
2) Currently the company's depreciation expense is lower compared to its peers; however, it could rise in future in line with its peers; this could impact its earnings.
3) 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.
4) Delay in capacity expansion and lower than expected utilization of existing as well as new capacity could impact the profitability of the company.

Consolidated Profit & Loss

Y/E March (₹ cr)	FY2013	FY2014	FY2015
Total operating income	**333**	**349**	**329**
Total Expenditure	**232**	**225**	**209**
Operating Expenses	92	117	138
Purchases of Traded Goods	105	60	-
Personnel Expenses	17	19	22
Others Expenses	18	29	49
EBITDA	**102**	**124**	**120**
(% of Net Sales)	*30.5*	*35.5*	*36.4*
Depreciation& Amortisation	10	13	15
EBIT	**92**	**111**	**104**
(% of Net Sales)	*27.5*	*31.8*	*31.7*
Interest & other Charges	32	33	26
Other Income	5	21	2
(% of PBT)	*7.3*	*21.1*	*2.7*
Share in profit of Associates	-	-	-
Recurring PBT	**64**	**99**	**80**
Prior Period & Extraordinary Expense/(Inc.)	-	-	-
PBT (reported)	**64**	**99**	**80**
Tax	7	9	7
(% of PBT)	*11.1*	*8.9*	*8.8*
PAT (reported)	**57**	**90**	**73**
Add: Share of earnings of associate	-	-	-
Less: Minority interest (MI)	-	-	-
PAT after MI (reported)	**57**	**90**	**73**
ADJ. PAT	**57**	**90**	**73**
(% of Net Sales)	*17.0*	*25.8*	*22.2*
Basic EPS (₹)	**5.2**	**8.2**	**6.7**

Consolidated Balance sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015
SOURCES OF FUNDS			
Equity Share Capital	17	21	112
Reserves& Surplus	292	413	632
Shareholders Funds	309	434	744
Minority Interest	-	-	1
Total Loans	376	368	458
Deferred Tax Liability	21	27	32
Total Liabilities	706	829	1,235
APPLICATION OF FUNDS			
Fixed Assets	620	656	1,073
Capital Work-in-Progress	0	44	27
Investments	20	20	5
Current Assets	156	198	253
Spare Parts and Consumables	-	-	2
Sundry Debtors	63	76	77
Cash	4	1	1
Loans & Advances	76	100	143
Other Assets	12	20	30
Current liabilities	91	88	124
Net Current Assets	65	110	129
Goodwill on Consolidation	0	0	0
Deferred Tax Asset	-	-	-
Mis. Exp. not written off	-	-	-
Total Assets	706	829	1,235

Consolidated Cash flow statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015
Profit before tax	64	99	80
Depreciation	10	13	15
Change in Working Capital	(19)	(29)	7
Interest / Dividend (Net)	(1)	(17)	1
Direct taxes paid	(15)	(16)	(22)
Others	32	33	42
Cash Flow from Operations	**73**	**82**	**123**
(Inc.)/ Dec. in Fixed Assets	(130)	(93)	(178)
(Inc.)/ Dec. in Investments	(20)	-	15
Cash Flow from Investing	**(109)**	**(93)**	**(194)**
Issue of Equity	43	35	-
Inc./(Dec.) in loans	(5)	(25)	70
Interest / Dividend (Net)	-	-	-
Cash Flow from Financing	**38**	**10**	**70**
Inc./(Dec.) in Cash	1	(1)	(0)
Opening Cash balances	**0**	**2**	**1**
Closing Cash balances	**2**	**1**	**1**

Key Ratios

Y/E March	FY2013	FY2014	FY2015
Valuation Ratio (x)			
P/E (on FDEPS)	30.0	18.9	23.2
P/CEPS	25.4	16.5	19.2
P/BV	5.5	3.9	2.3
EV/Sales	6.2	5.9	6.5
EV/EBITDA	20.2	16.5	18.0
EV / Total Assets	2.6	2.2	1.6
Per Share Data (₹)			
EPS (Basic)	5.2	8.2	6.7
EPS (fully diluted)	5.2	8.2	6.7
Cash EPS	6.1	9.4	8.1
Book Value	28.1	39.5	67.8
Turnover ratios (x)			
Asset Turnover (Gross Block)	0.5	0.5	0.3
Inventory / Sales (days)	-	-	-
Receivables (days)	69	80	86
Payables (days)	14	1	13
Working capital cycle (ex-cash) (days)	56	78	73

Note: Valuation Ratio at the upper price band

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