

Navkar Corporation

Performance Update

Y/E March (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq
Net sales	90	86	5.2	90	(0.2)
EBITDA	33	37	(9.8)	38	(12.8)
EBITDA margin (%)	37.1	43.3	(618bp)	42.4	(536bp)
Adjusted PAT	22	22	4.1	24	(4.7)

Source: Company, Angel Research

Navkar Corporation (NCL) reported a subdued set of numbers for 2QFY2017. The consolidated top-line grew by ~5% yoy; while on the operating front, the company reported a margin contraction on account of prolonged monsoons that resulted in higher operational costs. The net profit grew by ~4% yoy due to lower subdued sales and poor operating performance.

Top-line grew ~5% yoy: The consolidated top-line reported lower growth, which is ~5% yoy to ~₹90cr mainly on account of change in EXIM mix & few shipping lines discontinuing their incentive structure, resulting in lower tariff. However, volumes at Vapi improved handling 1,225 TEUs in 2QFY17 vs. 305 TEUs in 1QFY17.

PAT grew ~4% yoy: On the operating front, the company reported a margin contraction of 618bp yoy to 37.1% on account of prolonged monsoons that resulted in higher operational costs. As a result, the EBITDA de-grew by ~10% yoy to ₹33cr. However, net profit grew by 4.1% on back of lower interest cost.

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 15.2x its FY2018E earnings. Historically, NCL 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 NCL's utilization to improve and the company 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	369	561
% chg	4.8	(5.9)	5.6	6.2	52.0
Adj. Net profit	90	68	95	103	164
% chg	58.7	(24.0)	39.0	8.2	59.5
EBITDA margin (%)	35.5	40.7	43.2	42.9	42.3
EPS (₹)	6.3	4.8	6.7	7.2	11.5
P/E (x)	27.7	36.5	26.2	24.2	15.2
P/BV (x)	5.8	3.3	1.9	1.8	1.6
RoE (%)	21.0	9.1	7.3	7.3	10.5
RoCE (%)	12.8	9.1	7.5	7.5	10.8
EV/Sales (x)	8.3	9.3	7.7	7.8	5.1
EV/EBITDA (x)	23.5	22.8	17.7	18.1	12.1

Source: Company, Angel Research; Note: CMP as of December 1, 2016

BUY

CMP	₹175
Target Price	₹265

Investment Period	12 Months
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Stock Info

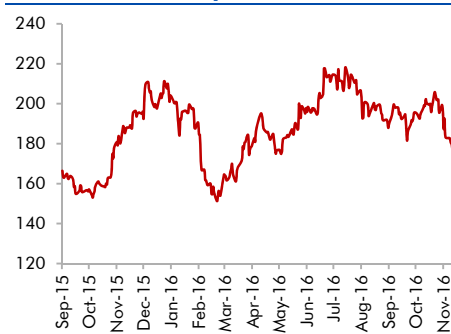
Sector	Logistics
Market Cap (₹ cr)	2,567
Net Debt	161
Beta	0.6
52 Week High / Low	224 / 151
Avg. Daily Volume	13,323
Face Value (Rs)	10
BSE Sensex	26,431
Nifty	8,138
Reuters Code	NA
Bloomberg Code	NACO@IN

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	(6.6)	1.5	27.1
NCL	(10.9)	(9.3)	NA

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 Performance

Y/E March (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq	1HFY17	1HFY16	% chg
Net Sales	90	86	5.2	90	(0.2)	177	168	5.4
Staff Costs	8	6	29.3	7	10.6	14	11	24.3
(% of Sales)	8.8	7.1	164	7.9	86	8.1	6.8	123
Other Expenses	49	42	14.8	45	8.9	90	81	10.9
(% of Sales)	54.1	49.6	455	49.6	450	51.1	48.5	253
Total Expenditure	57	49	16.7	52	9.1	104	93	12.5
Operating Profit	33	37	(9.8)	38	(12.8)	72	75	(3.5)
OPM	37.1	43.3	(618bp)	42.4	(536bp)	40.9	44.6	
Interest	6	12	(50.0)	11	(46.1)	17	25	(33.0)
Depreciation	5	5	5.6	5	(0.8)	10	10	0.5
Other Income	3	4	(20.6)	4	(23.4)	12	10	26.8
PBT (excl. Ext Items)	26	24	5.1	26	(2.7)	58	49	16.9
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	26	24	5.1	26	(2.7)	58	49	16.9
(% of Sales)	28.4	28.4		29.1		32.7	29.5	
Provision for Taxation	3	3		3		6	6	9.8
(% of PBT)	12.2	11.4		10.4		11.0	11.7	
Reported PAT	22	22	4.1	24	(4.7)	51	44	17.8
PATM	24.9	25.2		26.1		29.1	26.0	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	22	22	4.1	23.5	(4.7)	51	44	17.8
PATM	24.9	25.2		26.1		29.1	26.0	

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 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. 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 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 NCL.

Utilizing real estate for debt reduction

NCL has approved the opportunistic 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 15.2x its FY2018E earnings. Historically, NCL 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 NCL's utilization to improve and the company 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

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 in 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 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	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	31	34
Other Income	4	2	23	15	14
(% of PBT)	4.7	2.3	17.7	12.4	7.0
Share in profit of Associates	-	-	-	-	-
Recurring PBT	82	94	131	121	193
% chg	28.4	15.3	38.6	(7.4)	59.5
Prior Period & Extra. Exp./ (Inc.)	-	-	-	-	-
PBT (reported)	82	94	131	121	193
Tax	9	12	19	18	29
(% of PBT)	10.8	12.4	14.6	15.0	15.0
PAT (reported)	73	83	112	103	164
Extraordinary Items	17	(14)	(17)	-	-
ADJ. PAT	90	68	95	103	164
% chg	58.7	(24.0)	39.0	8.2	59.5
(% of Net Sales)	25.8	20.8	27.4	27.9	29.3
Basic EPS (₹)	6.3	4.8	6.7	7.2	11.5
Fully Diluted EPS (₹)	6.3	4.8	6.7	7.2	11.5
% chg	58.7	(24.0)	39.0	8.2	59.5

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	1,256	1,421
Shareholders' Funds	428	750	1,298	1,401	1,565
Minority Interest	-	-	-	-	-
Total Loans	437	555	452	440	420
Deferred Tax Liability	28	33	33	33	33
Total Liabilities	893	1,338	1,783	1,874	2,018
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	435	592
Inventories	-	2	2	3	5
Sundry Debtors	76	77	83	89	135
Cash	1	1	290	74	54
Loans & Advances	45	48	52	66	101
Other Assets	76	126	175	203	297
Current liabilities	25	22	25	19	28
Net Current Assets	172	231	577	416	564
Deferred Tax Asset	1	1	1	1	1
Mis. Exp. not written off	-	-	-	-	-
Total Assets	893	1,338	1,783	1,874	2,018

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	99	80	131	121	193
Depreciation	13	15	19	21	23
Change in Working Capital	(29)	7	(56)	(56)	(167)
Interest / Dividend (Net)	33	26	23	31	34
Direct taxes paid	(16)	(22)	(19)	(18)	(29)
Others	(17)	18	-	-	-
Cash Flow from Operations	82	123	98	99	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	(31)	(34)
Cash Flow from Financing	10	71	310	(43)	(54)
Inc./(Dec.) in Cash	(1)	0	289	(217)	(20)
Opening Cash balances	2	1	1	290	74
Closing Cash balances	1	1	290	74	54

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	27.7	36.5	26.2	24.2	15.2
P/CEPS	29.0	25.5	19.1	20.1	13.3
P/BV	5.8	3.3	1.9	1.8	1.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	8.3	9.3	7.7	7.8	5.1
EV/EBITDA	23.5	22.8	17.7	18.1	12.1
EV / Total Assets	3.2	2.2	1.5	1.5	1.4
Per Share Data (₹)					
EPS (Basic)	6.3	4.8	6.7	7.2	11.5
EPS (fully diluted)	6.3	4.8	6.7	7.2	11.5
Cash EPS	6.0	6.9	9.2	8.7	13.1
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	30.0	52.6	91.0	98.3	109.8
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	7.3	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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Disclosure of Interest Statement

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)