Navkar Corporation

Performance Update

Y/E March (₹ cr)	3QFY2016	3QFY2015	% chg (yoy)	2QFY2016	% chg (qoq)
Net sales	88	84	*4.6*	86	*3.1*
EBITDA	37	37	*0.9*	37	*(0.0)*
EBITDA margin (%)	*42.0*	*43.5*	*(154bp)*	*43.3*	*(130bp)*
Adjusted PAT	29	16	*83.0*	22	*33.7*

Source: Company, Angel Research

Navkar Corporation (Navkar) reported a mixed set of numbers for 3QFY2016. The consolidated top-line grew by ~5% yoy. On the operating front, the company reported a margin contraction on account of higher operating and employee expenses. However, the net profit grew by ~83% yoy (after factoring in forex losses) due to higher other income and lower interest related expenses.

Top-line grew ~5% yoy: The consolidated top-line grew by ~5% yoy to ~₹88cr owing to subdued EXIM volumes. Volume grew ~7% yoy to 80,815 TEUs, mainly due to a higher mix of imports. The commodity mix comprised of agro products (~43%), hazardous products (~14%) while other product categories accounted for the balance ~43%.

PAT grew ~83% yoy despite operating margin contraction: On the operating front, the company reported a margin contraction of 154bp yoy to 42.0% on account of higher operating and employee expenses. As a result, the EBITDA came in flat yoy at ~₹37cr. However, the net profit grew by ~83% yoy to ~₹29cr due to higher other income and lower interest related expenses.

Outlook and Valuation: We estimate Navkar to post a revenue CAGR of ~26% and PAT CAGR of ~31% over FY2015-18E. We have factored in lower utilization levels of 33.2% and 42.2% for FY2017E and FY2018E, respectively. At the current levels, the stock is trading at 15.3x 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	FY2016E	FY2017E	FY2018E
Net sales	349	329	365	436	664
% chg	*4.8*	*(5.9)*	*11.2*	*19.3*	*52.2*
Adj. Net profit	90	73	80	84	164
% chg	*58.7*	*(18.7)*	*9.9*	*4.3*	*95.8*
EBITDA margin (%)	35.5	40.7	38.3	37.5	37.5
EPS (₹)	6.3	5.1	5.6	5.9	11.5
P/E (x)	27.9	34.3	31.2	29.9	15.3
P/BV (x)	5.9	3.3	2.0	1.8	1.6
RoE (%)	21.0	9.7	6.3	6.1	10.7
RoCE (%)	12.8	9.1	6.7	7.5	11.4
EV/Sales (x)	8.4	9.3	7.7	6.6	4.3
EV/EBITDA (x)	23.6	22.8	20.1	17.6	11.4

Source: Company, Angel Research Note: CMP as of February 11, 2016

BUY

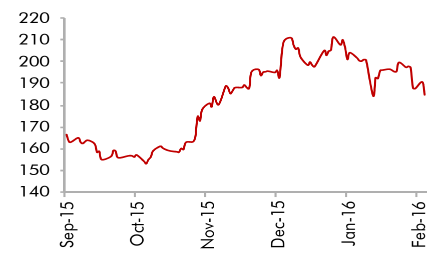
CMP	₹176
Target Price	₹265
Investment Period	-

Sector	Logistics
Market Cap (Rs cr)	2,460
Net Debt	549
Beta	0.6
52 Week High / Low	221 / 151
Avg. Daily Volume	61,027
Face Value (Rs)	10
BSE Sensex	22,952
Nifty	6,976
Reuters Code	NA
Bloomberg Code	NACO@IN

Shareholding Pattern (%)	
Promoters	72.9
MF / Banks / Indian FIs	15.3
FII / NRIs / OCBs	6.2
Indian Public / Others	5.7

Abs. (%)	3m	1yr	3yr
Sensex	(7.7)	(16.2)	22.1
NCL	2.9	NA	NA

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2016 performance

Y/E March (` cr)	3QFY16	3QFY15	% chg. (yoy)	2QFY16	% chg. (qoq)	9MFY16	9MFY15	% chg
Net Sales	**88**	**84**	*4.6*	**86**	*3.1*	**256**	**245**	*4.6*
Operating Expenses	36	33	*10.9*	35	*4.3*	105	101	*3.2*
(% of Sales)	*41.0*	*38.7*		*40.5*		*40.9*	*41.5*	
Employee Cost	7	5	*33.1*	6	*12.8*	18	16	*17.7*
(% of Sales)	*7.8*	*6.1*		*7.1*		*7.2*	*6.4*	
Other Expenses	8	10	*(17.3)*	8	*4.5*	21	21	*(1.2)*
(% of Sales)	*9.2*	*11.7*		*9.1*		*8.3*	*8.7*	
Total Expenditure	**51**	**48**	*7.5*	**49**	*5.4*	**144**	**138**	*4.1*
Operating Profit	**37**	**37**	*0.9*	**37**	*(0.0)*	**112**	**106**	*5*
OPM (%)	*42.0*	*43.5*	*(154)*	*43.3*	*(130)*	*43.7*	*43.4*	*27*
Interest	7	17	*(55.8)*	12	*(39.0)*	33	37	*(11.6)*
Depreciation	5	4	*30.4*	5	*0.1*	15	11	*28.8*
Other Income	10	1	*1,858.8*	4	*142.1*	17	2	*905.2*
PBT	**35**	**17**	*106.1*	**24**	*43.3*	**81**	**60**	*36.3*
(% of Sales)	*39.5*	*20.0*		*28.4*		*31.7*	*24.3*	
Tax	6	1	*417.5*	3	*118.7*	12	4	*235.3*
(% of PBT)	*17.3*	*6.9*		*11.3*		*14.6*	*5.9*	
Reported PAT	**29**	**16**	*83.0*	**22**	*33.7*	**69**	**56**	*23.8*
Extraordinary Expense/(Inc.)	-	-		-		-	-	
Adjusted PAT	**29**	**16**	*83.0*	**22**	*33.7*	**69**	**56**	*23.8*
PATM	*32.6*	*18.7*		*25.2*		*27.1*	*22.9*	

Source: Company, Angel Research

Investment Arguments

Upcoming ICD to provide an edge

The Vapi region has a huge market 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 ICD (with rail connectivity) 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 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 ~26% and PAT CAGR of ~31% over FY2015-18E. We have factored in lower utilization levels of 33.2% and 42.2% for FY2017E and FY2018E, respectively. At the current levels, the stock is trading at 15.3x 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 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)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Total operating income	**333**	**349**	**329**	**365**	**436**	**664**
% chg	*24.4*	*4.8*	*(5.9)*	*11.2*	*19.3*	*52.2*
Total Expenditure	**232**	**225**	**195**	**225**	**273**	**415**
Operating Expenses	92	117	138	157	188	289
Purchases of Traded Goods	105	60	-	-	-	-
Personnel Expenses	17	19	22	26	34	53
Others Expenses	18	29	34	42	50	73
EBITDA	**102**	**124**	**134**	**140**	**164**	**249**
% chg	*12.9*	*21.9*	*7.9*	*4.5*	*16.8*	*52.2*
(% of Net Sales)	*30.5*	*35.5*	*40.7*	*38.3*	*37.5*	*37.5*
Depreciation& Amortisation	10	13	15	22	28	30
EBIT	**92**	**111**	**119**	**118**	**135**	**219**
% chg	*11.5*	*21.3*	*6.9*	*(0.3)*	*14.4*	*61.7*
(% of Net Sales)	*27.5*	*31.8*	*36.1*	*32.4*	*31.0*	*33.0*
Interest & other Charges	32	33	26	41	47	42
Other Income	5	4	2	10	3	3
(% of PBT)	*7.3*	*4.7*	*2.3*	*11.4*	*3.3*	*1.7*
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	**64**	**82**	**94**	**87**	**92**	**180**
% chg	*21.3*	*28.4*	*15.4*	*(7.5)*	*4.8*	*96.9*
Prior Period & Extraord. Exp./(Inc.)	-	-	-	-	-	-
PBT (reported)	**64**	**82**	**94**	**87**	**92**	**180**
Tax	7	9	7	7	8	16
(% of PBT)	*11.1*	*10.8*	*7.4*	*8.0*	*8.5*	*9.0*
PAT (reported)	**57**	**73**	**87**	**80**	**84**	**164**
Extraordinary Items	0	17	(14)	-	-	-
ADJ. PAT	**57**	**90**	**73**	**80**	**84**	**164**
% chg		*58.7*	*(18.7)*	*9.9*	*4.3*	*95.8*
(% of Net Sales)	*17.0*	*25.8*	*22.2*	*22.0*	*19.2*	*24.7*
Basic EPS (₹)	**4.0**	**6.3**	**5.1**	**5.6**	**5.9**	**11.5**
Fully Diluted EPS (₹)	**4.0**	**6.3**	**5.1**	**5.6**	**5.9**	**11.5**
% chg	*20.8*	*58.7*	*(18.7)*	*9.9*	*4.3*	*95.8*

Consolidated Balance Sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	17	21	112	145	145	145
Reserves& Surplus	299	407	638	1,139	1,222	1,387
Shareholders' Funds	**316**	**428**	**750**	**1,283**	**1,367**	**1,531**
Minority Interest	-	-	-	-	-	-
Total Loans	444	437	555	495	440	390
Deferred Tax Liability	21	28	33	33	33	33
Total Liabilities	**781**	**893**	**1,338**	**1,812**	**1,840**	**1,954**
APPLICATION OF FUNDS						
Gross Block	651	699	1,133	1,409	1,556	1,606
Less: Acc. Depreciation	30	43	59	81	109	139
Net Block	**620**	**656**	**1,073**	**1,328**	**1,447**	**1,467**
Capital Work-in-Progress	0	44	27	27	27	27
Investments	**20**	**20**	**5**	**5**	**5**	**5**
Current Assets	156	198	253	473	385	497
Inventories	-	-	2	2	2	4
Sundry Debtors	63	76	77	87	104	158
Cash	4	1	1	191	61	56
Loans & Advances	42	45	48	55	65	100
Other Assets	47	76	126	139	153	179
Current liabilities	16	25	22	23	26	43
Net Current Assets	**140**	**172**	**231**	**450**	**360**	**454**
Deferred Tax Asset	**0**	**1**	**1**	**1**	**1**	**1**
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	**781**	**893**	**1,338**	**1,812**	**1,840**	**1,954**

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	64	99	80	87	92	180
Depreciation	10	13	15	22	28	30
Change in Working Capital	(19)	(29)	7	(29)	(39)	(99)
Interest / Dividend (Net)	32	33	26	41	47	42
Direct taxes paid	(15)	(16)	(22)	(7)	(8)	(16)
Others	0	(17)	18	-	-	-
Cash Flow from Operations	**73**	**82**	**123**	**114**	**120**	**136**
(Inc.)/ Dec. in Fixed Assets	(89)	(93)	(209)	(276)	(147)	(50)
(Inc.)/ Dec. in Investments	(20)	-	15	-	-	-
Cash Flow from Investing	**(109)**	**(93)**	**(194)**	**(276)**	**(147)**	**(50)**
Issue of Equity	43	35	-	453	-	-
Inc./(Dec.) in loans	27	10	97	(60)	(55)	(50)
Dividend Paid (Incl. Tax)	-	-	-	-	-	-
Interest / Dividend (Net)	11	1	(27)	412	(47)	(42)
Cash Flow from Financing	**38**	**10**	**71**	**352**	**(102)**	**(92)**
Inc./(Dec.) in Cash	1	(1)	0	189	(129)	(5)
Opening Cash balances	**0**	**2**	**1**	**1**	**191**	**61**
Closing Cash balances	**2**	**1**	**1**	**191**	**61**	**56**

Key Ratios

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	44.3	27.9	34.3	31.2	29.9	15.3
P/CEPS	37.5	29.2	24.5	24.6	22.4	12.9
P/BV	7.9	5.9	3.3	2.0	1.8	1.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales	8.8	8.4	9.3	7.7	6.6	4.3
EV/EBITDA	28.8	23.6	22.8	20.1	17.6	11.4
EV / Total Assets	3.7	3.2	2.2	1.5	1.5	1.4
Per Share Data (₹)						
EPS (Basic)	4.0	6.3	5.1	5.6	5.9	11.5
EPS (fully diluted)	4.0	6.3	5.1	5.6	5.9	11.5
Cash EPS	4.7	6.0	7.2	7.2	7.9	13.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Book Value	22.2	30.0	52.6	90.0	95.9	107.4
Returns (%)						
ROCE	12.0	12.8	9.1	6.7	7.5	11.4
Angel ROIC (Pre-tax)	12.5	13.2	9.1	7.5	7.8	11.8
ROE	17.9	21.0	9.7	6.3	6.1	10.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.5	0.5	0.3	0.3	0.3	0.4
Inventory / Sales (days)	-	-	2	2	2	2
Receivables (days)	69	80	86	87	87	87
Payables (days)	5	7	7	5	4	4
Wc cycle (ex-cash) (days)	64	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 (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to -15%)	*Sell (< -15%)*	