

Institutional Equity Research

Navkar Corporation

Metals & Mining | India

1QFY18 Result Update | July 25, 2017

CMP* (Rs)	205
Upside/ (Downside) (%)	12
Bloomberg Ticker	NACO IN
Market Cap. (Rs bn)	29
Free Float (%)	27
Shares O/S (mn)	143

BUY 

Target Price: Rs229

Limited DPD Impact; Upgrade to BUY

Navkar Corporation (NCL) has delivered a decent performance in 1QFY18. Surpassing volume growth, its consolidated revenue grew by 9.6% YoY (flat on QoQ basis) to Rs988mn. Volume grew by 4.7% YoY (4.4% QoQ) to 86,073 TEUs, while realisation grew by 4.6%YoY (-4.5% QoQ) to Rs11,482/TEU. Realisation growth was aided by higher contribution from Vapi ICD and improved revenue-mix and lower share of empty cargoes, which stood at 4,524 in 1QFY18 compared to 5,300 in 1QFY17. EBITDA increased by 10% YoY and 11.6% QoQ to Rs390mn partly due to certain one-off expenses relating to: (1) loss on sale of asset; (2) employee bonus accounting post IND-AS; (3) higher operating and employee cost relating to Greenfield project at Vapi in both 1QFY17 as well as 4QFY17. However, NCL's adjusted PAT declined by 7.7% YoY (+7.3% QoQ) to Rs217mn largely due to higher tax outgo. Looking ahead, we expect limited impact from Direct Port Delivery (DPD) due to favourable exports-mix, while ramp-up at Vapi ICD is expected to start meaningfully contributing to NCL's overall sales in ensuing quarters. **Hence, we upgrade our recommendation on the stock to BUY from HOLD with an unrevised Target Price of Rs229.**

Capacity Ramp-up at Vapi ICD to Boost Volumes

Container volumes handled by NCL – including 5,780TEUs from Vapi ICD – stood at 86,073 TEUs in 1QFY18, which translates into almost 100% capacity utilization at Panvel. Notably, excluding Vapi ICD, NCL's volume at Panvel fell by 2% YoY. Operations started at Vapi (Road + CFS) from 1QFY17 with attractive pricing of ~Rs23,000/TEU (blended package for CFS + Transportation) compared to ongoing rate of ~Rs35,000/TEU. At Vapi ICD, NCL handled 5,780TEUs in 1QFY18 compared to 2,886TEUs in 4QFY17 and 325TEUs in 1QFY17, respectively. Looking ahead, NCL's management pegs volume from Vapi at ~100,000TEUs in FY18 considering steady ramp-up by the local companies. However, we believe this is most unlikely to achieve considering a required run-rate of ~31,400TEUs/quarter for the balance three quarters. Though NCL has received all requisite approvals for the railway siding at Vapi ICD, inspection by GM (Railways) is only pending due to incessant rains, which is expected to commence only by mid Aug'17.

Outlook & Valuation

We believe that NCL continues to remain well-placed to cash in the expected rise in EXIM trade on the back of several initiatives undertaken by the Government. Further, the threat of new entrants in CFS & ICD (Inland Container Depots) industry is moderate as limited land availability at strategic locations would discourage the competitors. We expect limited impact from Direct Port Delivery (DPD) due to favourable exports-mix, while Vapi ICD ramp up is expected to start meaningfully contributing to NCL's overall sales in ensuing quarters. **Hence, we upgrade our recommendation on the stock to BUY from HOLD with an unrevised Target Price of Rs229.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	3,473	3,709	5,416	6,940
EBITDA	1,337	1,374	2,174	2,894
Net Profit	855	856	1,493	2,177
EPS (Rs)	6.0	6.0	10.5	15.3
DPS (Rs)	-	-	2.8	3.0
P/E (x)	34.2	34.2	19.6	13.4
P/B (x)	1.7	1.6	1.4	1.3
EV/EBITDA (x)	23.1	24.0	15.2	11.2
RoE (%)	6.4	6.0	9.8	12.9
Div. Yield (%)	-	-	1.6	1.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(2.4)	(4.9)	(4.2)
Relative to Nifty	(6.5)	(12.0)	(19.7)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	72.9	72.9
Public	27.1	27.1

1 Year Stock Price Performance



Note: * CMP as on July 25, 2017

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Risks to the View

- Slower ramp-up of capacity at new facilities.
- Lower-than-expected container volume.
- Lower-than-expected realisation.

Exhibit 1: Result Summary

Consolidated (Rs mn)	1QFY18	1QFY17	yoy %	4QFY17	qoq %	FY17	FY16	yoy %
Total Sales	988	902	9.6	991	(0.2)	3,709	3,473	6.8
Other Income	12	43	(71.7)	31	(61.2)	131	232	(43.4)
Total Income	1,000	945	5.9	1,022	(2.1)	3,840	3,704	3.7
Total Expenses	598	547	9.3	641	(6.7)	2,335	2,136	9.3
EBITDA	390	355	10	349	11.6	1,374	1,337	2.8
Interest	72	83	(13.5)	77	(6)	313	344	(9)
Depreciation	54	52	5.1	46	17.5	201	193	3.9
Tax	59	27	114.6	55	5.8	136	176	(22.8)
Reported PAT	217	235	(7.7)	202	7.3	856	855	0.1
Reported EPS (Rs)	1.5	1.6		1.4		6	6	
Adjusted PAT	217	235	(7.7)	202	7.3	856	855	0.1
Adjusted EPS (Rs)	1.5	1.6		1.4		6	6	
Ratios (%)								
EBITDA Margins (%)	39.5	39.3		35.3		37.1	38.5	
Profit Margins (%)	22	26.1		20.4		23.1	24.6	

Source: Company, RSec Research

Exhibit 2: Operational performance

Particulars	1QFY18	1QFY17	yoy %	4QFY17	qoq %
Volumes handled (TEU')	86,073	82,191	4.7	82,406	4.4
Realization per TEU (Rs)	11,482	10,975	4.6	12,022	(4.5)
EBITDA/TEU (Rs)	4,531	4,315	5	4,240	6.9

Source: Company, RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
Revenues	3,473	3,709	5,416	6,940
growth %	5.6	6.8	46.0	28.1
Expenses	2,136	2,335	3,241	4,046
Operating expenses	1,437	1,635	2,437	3,053
Purchase of traded goods	-	-	-	-
Employee expenses	246	317	395	493
Other expenses	452	382	409	500
EBITDA	1,337	1,374	2,174	2,894
growth %	11.8	2.8	58.2	33.1
margins %	38.5	37.1	40.2	41.7
Other Income	232	131	95	125
growth %	978.4	(43.4)	(27.6)	31.6
Depreciation	193	201	317	335
growth %	27.0	3.9	57.7	5.7
Interest expenses	344	313	274	237
growth %	30.4	(9.0)	(12.4)	(13.5)
PBT	1,032	992	1,679	2,447
growth %	28.7	(3.8)	69.2	45.8
margins %	29.7	26.7	31.0	35.3
Net Tax	176	136	186	270
as a % of PBT	17.1	13.7	11.1	11.1
Profit After Tax	855	856	1,493	2,177
growth %	16.9	0.1	74.4	45.8
margins %	24.6	23.1	27.6	31.4
Diluted EPS	6.0	6.0	10.5	15.3

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Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Equity and Liabilities				
Shareholders funds	13,371	14,227	15,249	16,913
Share capital	1,426	1,426	1,426	1,426
Reserves & Surplus	7,174	8,030	9,052	10,716
Share Premium Account	4,771	4,771	4,771	4,771
Minority interest	10	10	10	10
Non-Current Liabilities	4,797	5,658	5,127	4,651
Long term borrowings	4,382	5,207	4,557	3,907
Deferred Tax Liability net	388	421	539	710
Long Term provisions	27	30	32	34
Current Liabilities	1,580	1,549	2,031	2,477
Short term borrowings	300	250	250	250
Trade Payables (Creditors)	125	135	150	150
Other Current Liabilities	1,094	1,097	1,558	1,996
Short Term Provisions	60	66	73	80
TOTAL Liabilities	19,758	21,444	22,418	24,050
Non-Current Assets				
Fixed Assets	14,455	17,097	17,597	18,097
Tangible assets	11,706	11,936	17,097	17,597
CWIP	2,748	5,161	500	500
Goodwill on Consolidation	0.3	0.3	0.3	0.3
Long Term Loans and Advances C	1,252	1,314	1,511	1,738
Other non-current Assets	64	64	64	64
Sub-Total	15,770	18,475	19,172	19,899
Current Assets	3,988	2,969	3,246	4,151
Spare parts & Consumables (Inventory)	16	16	16	16
Trade Receivable (Debtors)	479	874	1,261	1,616
Cash and Bank Balance	3,097	1,688	977	1,032
Short Term Loans and & Adv	175	210	714	1,114
Other Current Assets	220	180	278	374
TOTAL Assets	19,758	21,444	22,418	24,050

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Cash Flow Statement

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Cash flow from operating activities				
PBT	1,032	992	1,679	2,447
Adjustments				
Depreciation	193	201	317	335
Finance costs	344	313	274	237
Operating CF Before W/Cap Changes	1,569	1,506	2,269	3,019
Adjustments for change in w/cap				
Decrease/(Increase) in trade receivables	296	(395)	(387)	(355)
Dec. /(Inc.) in short term loans & advances	68	(35)	(504)	(399)
Dec. /(Inc.) in long term loans & advances	(60)	(63)	(197)	(227)
Decrease/(Increase) in other current assets	12	40	(97)	(96)
Increase/(Decrease) in trade payables	9	10	15	-
Inc. /(Dec.) in Other current liabilities	51	3	460	438
Increase/(Decrease) in Long term provision	1.8	2.3	2.2	2.3
Increase/(Decrease) in Short term provision	5.5	6.0	6.6	7.3
Cash Generated From Operations	1,953	1,075	1,568	2,390
Income Taxes Paid	(176)	(136)	(186)	(270)
Net Cash Flow From Operations (A)	1,776	939	1,382	2,119
Cash flow from Investing				
Purchase or cons. of fixed assets incl. CWIP	(3,253)	(2,441)	(183)	(165)
Proceeds from Sale of investments	(50)	-	-	-
others	(217.8)	(368.4)	(516.0)	(498.3)
Net CF Used In Investing Activities (B)	(3,521)	(2,810)	(699)	(664)
Cash Flow from Financing activities				
Proceeds from Issue of Share Capital (Incl Securities premium)	5,077			
Proceeds from/(Repayment of) Long-term Borrowings (net)	78	825	(650)	(650)
Proceeds from/(Repayment of) Short-term Borrowings (net)	20	(50)	-	-
Finance costs	(344)	(313)	(274)	(237)
Dividend and Dividend tax paid	-	-	(471)	(513)
Net CF From Financing Activities - C	4,831	462	(1,395)	(1,400)
Net Cash Increase/(Decrease) In Cash And Cash Equivalents	3,086	(1,409)	(711)	55
Cash & Cash equiv. at begin. of the year	11	3,097	1,688	977
Cash & Cash equiv. at end of the year	3,097	1,688	977	1,032

Key Ratio

Y/E Mar	FY16	FY17	FY18E	FY19E
EBITDA margin (%)	3,473	3,709	5,416	6,940
EBIT margin (%)	1,337	1,374	2,174	2,894
Net profit margin (%)	855	856	1,493	2,177
Net Debt: equity (x)	6.0	6.0	10.5	15.3
RoCE (%)	-	-	2.8	3.0
RoE (%)	34.2	34.2	19.6	13.4

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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