

NAVKAR CORPORATION

LOGISTICS

BUY

Target Price: Rs 205

Volumes improve, margin stable

Panvel volumes improved ~4% QoQ (up ~3% Yo) led by 12% YoY rise in exports though imports declined ~4% YoY. Direct-To-Port Delivery (DPD) led impact was stable QoQ, as CFSs share of overall DPD volumes has been rising steadily (>60% now vs. 39% in Q4FY17). EBITDA margin was largely stable QoQ at Rs 4,525/teu (up ~8% YoY).

While **management expects final clearance for Vapi's rail siding shortly (rail survey going on), Q2 vol grew 50% QoQ to 8,696 teus**. This was partially led by volumes handled at Hazira (1,800 teus) due to partial shift in marble volumes from JNPT. Vapi's EBITDA margin was stable QoQ at Rs 3,230/teu, though lower than H2FY17 (Rs 4800/teu) due to change in cargo mix. We factor in the same, resulting in ~5% decline in our FY18/19E earnings. Maintain **BUY** with revised TP of Rs 205 (18x FY19E EPS; Rs 230 earlier) on expected benefits from volume ramp-up at Vapi, given attractive pricing (~25% lower to peers).

CMP : Rs 183
Potential Upside : 12%

MARKET DATA

No. of Shares : 151 mn
Free Float : 27%
Market Cap : Rs 28 bn
52-week High / Low : Rs 247 / Rs 155
Avg. Daily vol. (6mth) : 68,536 shares
Bloomberg Code : NACO IB Equity
Promoters Holding : 73%
FII / DII : 7% / 16%

Key highlights

- ◆ Q2 consol. revenue grew ~20% YoY to Rs 1.1 bn, EBITDA grew 19% YoY to Rs 404 mn (EBITDA margin stable YoY at 37.5%); PAT grew ~11% YoY to Rs 248 mn on lower other income (higher interest from IPO proceeds YoY)
- ◆ **Panvel**: Import-export mix improved YoY to 55:45 (59:41 in Q2FY17). Operational efficiency (partially due to RTGCs) helped to negate the adverse impact from relatively lower dwell time given YoY rise in DPD volumes
- ◆ **Vapi**: Volume growth was led by both exports as well as imports (current mix at 54:46 vs. 76:24 in Q2FY17) Management highlighted steady focus to increase originating volumes from existing as well as new customers
- ◆ Navkar raised Rs 1.45 bn through QIP, which will be used to repay debt - consol net debt to be reduced to Rs 2.2 bn (Rs 3.6 bn in H1). **Management plans to add more rail-linked terminals in the medium term** and increase its share across Exim as well domestic volumes

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	3,473	3,709	5,393	7,464
Adj PAT (Rs mn)	855	856	1,200	1,715
Con. EPS* (Rs.)	-	-	8.6	12.0
EPS (Rs.)	6.0	6.0	8.0	11.4
Change YOY (%)	(24.8)	0.1	32.8	42.9
P/E (x)	30.6	30.5	23.0	16.1
RoE (%)	7.9	6.1	7.8	10.1
RoCE (%)	8.7	6.8	8.9	12.6
EV/EBITDA (x)	22.2	22.8	16.2	11.1
DPS	-	-	-	-

Source: *Consensus broker estimates, Company, Axis Capital;

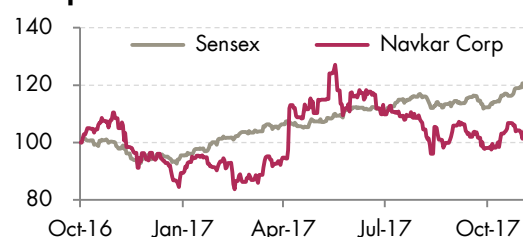
^DPD – Direct to Port Delivery

Key drivers

(Rs/teu)	FY17	FY18E	FY19E
Volume growth - Panvel	4.6%	9%	13%
Capacity utilization - Vapi	1.4%	10%	20%
EBITDA/teu - Panvel	4,265	4,490	4,560
EBITDA/teu - Vapi*	2,800	4,690	5,700

*H2FY17 EBITDA at Rs 4,800/teu at Vapi

Price performance



Other takeaways

- ◆ Empty volumes declined QoQ/ YoY to 5% of volumes (4,123 teus) in Q2 vs. 5.6% (4,524 teus) in Q1FY18 and 5.4% in Q2FY17 (4,400 teu)
- ◆ It operated 139 rakes in Q2 (118 rakes in Q1 and 127 rakes in Q2FY17)

Exhibit 1: Results update - Consolidated

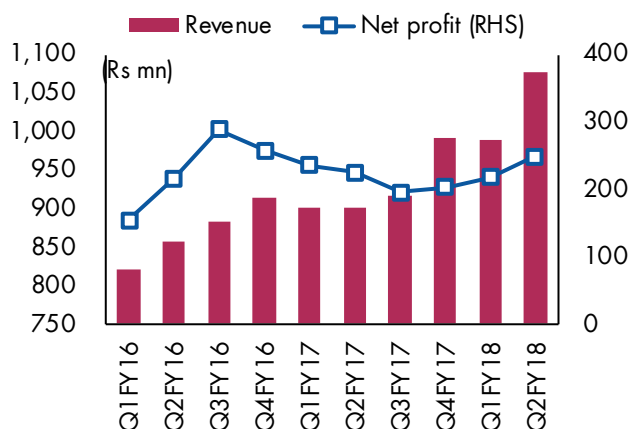
(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	FY17	FY16	% Chg
Net sales	1,078	900	19.7	988	9.1	3,709	3,473	(6.4)
EBITDA*	404	340	18.8	390	3.7	1,374	1,337	(2.7)
Other income	5	33	(85.2)	12	(59.8)	131	232	76.6
PBITD	409	373	9.7	402	1.7	1,506	1,569	4.2
Depreciation	55	51	6.8	54	0.8	201	193	(3.8)
Interest	53	66	(19.5)	72	(25.9)	313	344	9.9
PBT	301	255	17.9	276	9.2	992	1,032	4.0
Tax	53	31	69.4	59	(9.7)	136	176	29.5
Extra ordinary income/ (exp.)	0	0	(7.5)	0	4.8	0	0	-
Net profit	248	224	10.7	217	14.3	856	855	(0.1)
No. of shares (mn)	143	143	-	143	-	143	143	-
EBITDA margin (%)	37.5	37.8	-	39.5	-	37.1	38.5	-
PBITD margin (%)	38.0	41.4	-	40.7	-	40.6	45.2	-
EPS (Rs.)	1.7	1.6	10.7	1.5	14.3	6.0	6.0	(0.1)

Source: Company, Axis Capital *FY16 & FY17 EBITDA adjusted for forex/ hedging cost

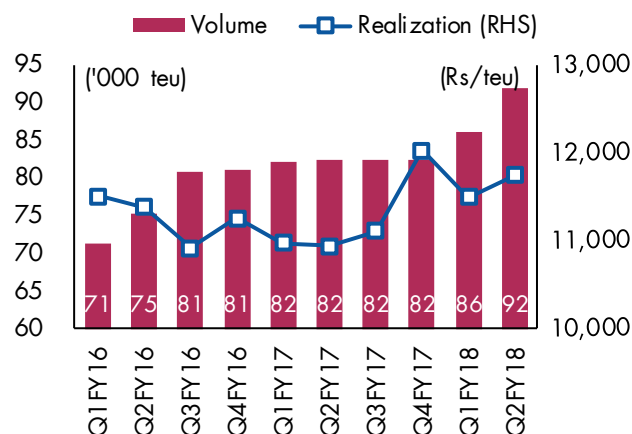
Exhibit 2: Vapi terminal performance

	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
Revenues	6	30	44	78	123	149
EBITDA	(4)	(1)	11	13	18	28
EBITDA margin (%)	NA	-3%	26%	16%	15%	19%
Operating performance						
Volumes (teus)	325	1,225	2,129	2,886	5,718	8,696
% Exports	2%	24%	40%	17%	41%	46%
Realization (Rs/teu)	18,551	24,127	20,567	27,053	21,425	17,130
EBITDA margin (Rs/teu)	NA	(813)	5,266	4,359	3,153	3,230

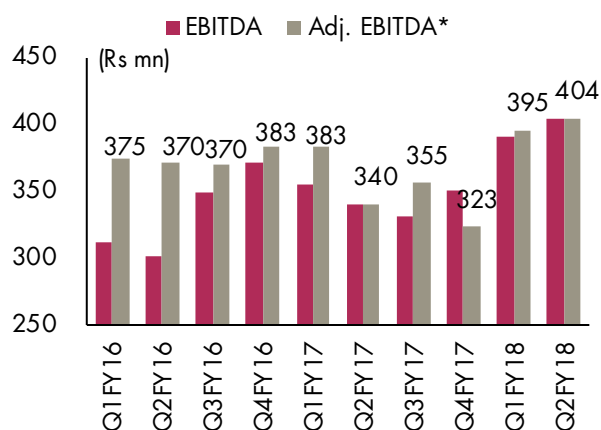
Source: Company, Axis Capital

Exhibit 3: Consol revenue, net profit trend


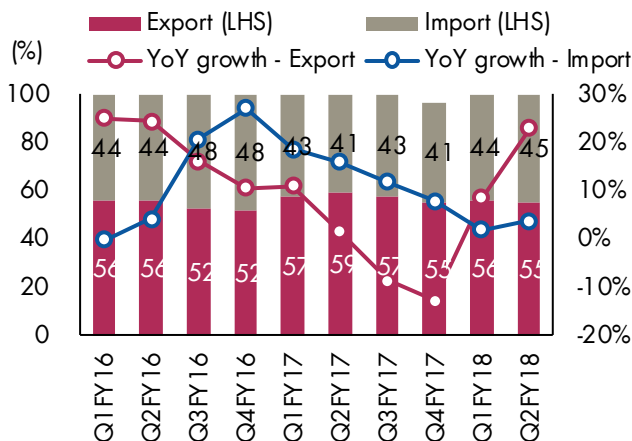
Source: Company, Axis Capital

Exhibit 4: Volumes and realization stable QoQ


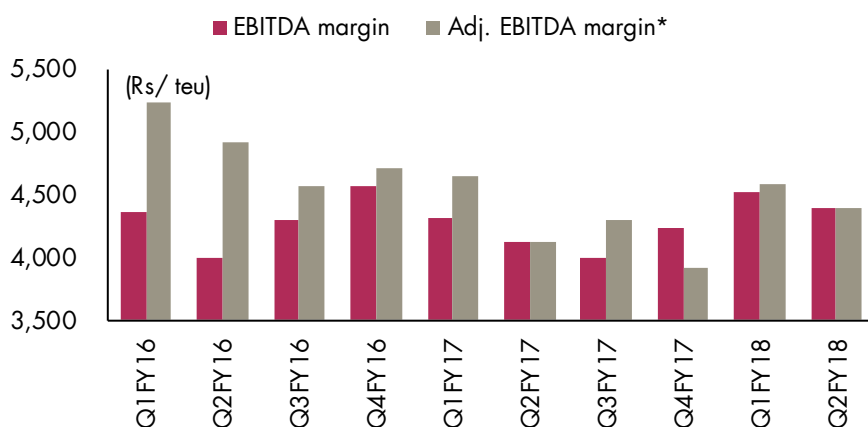
Source: Company, Axis Capital

Exhibit 5: Adjusted EBITDA largely stable QoQ


Source: Company, Axis Capital; * Adj EBITDA excluding forex impact

Exhibit 6: Export-Import mix, volume growth trend


Source: Company, Axis Capital; * Adj EBITDA margin excluding forex impact

Exhibit 7: Absolute EBITDA margin declines QoQ on one-time opex


Source: Company, Axis Capital * Adj EBITDA margin excluding forex impact

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	3,473	3,709	5,393	7,464
Other operating income	-	-	-	-
Total operating income	3,473	3,709	5,393	7,464
Cost of goods sold	(1,437)	(1,635)	(2,536)	(3,644)
Gross profit	2,035	2,074	2,857	3,820
<i>Gross margin (%)</i>	<i>58.6</i>	<i>55.9</i>	<i>53.0</i>	<i>51.2</i>
EBITDA	1,337	1,374	1,856	2,576
<i>EBITDA margin (%)</i>	<i>38.5</i>	<i>37.1</i>	<i>34.4</i>	<i>34.5</i>
Depreciation	(193)	(201)	(240)	(246)
EBIT	1,144	1,174	1,616	2,330
Net interest	(344)	(313)	(234)	(164)
Other income	232	131	118	121
Profit before tax	1,032	992	1,500	2,286
Total taxation	(176)	(136)	(300)	(572)
<i>Tax rate (%)</i>	<i>17.1</i>	<i>13.7</i>	<i>20.0</i>	<i>25.0</i>
Profit after tax	855	856	1,200	1,715
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	855	856	1,200	1,715
<i>Adj. PAT margin (%)</i>	<i>24.6</i>	<i>23.1</i>	<i>22.3</i>	<i>23.0</i>
Net non-recurring items	-	-	-	-
Reported net profit	855	856	1,200	1,715

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	1,426	1,426	1,505	1,505
Reserves & surplus	12,210	13,063	14,650	16,365
Net worth	13,636	14,489	16,155	17,870
Borrowing	5,027	5,054	3,107	1,607
Other non-current liabilities	33	39	39	39
Total liabilities	18,696	19,583	19,301	19,516
Gross fixed assets	12,496	12,908	14,908	19,182
Less: Depreciation	(789)	(970)	(1,210)	(1,456)
Net fixed assets	11,707	11,939	13,699	17,726
Add: Capital WIP	2,748	5,174	3,974	300
Total fixed assets	14,456	17,112	17,672	18,026
Total Investment	469	455	455	455
Inventory	40	57	57	57
Debtors	479	451	701	970
Cash & bank	2,903	1,294	619	655
Loans & advances	284	301	431	597
Current liabilities	874	886	1,186	1,642
Net current assets	2,870	1,246	649	675
Other non-current assets	901	769	524	360
Total assets	18,696	19,583	19,301	19,516

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,032	992	1,500	2,286
Depreciation & Amortisation	193	201	240	246
<i>Chg in working capital</i>	<i>1,035</i>	<i>(30)</i>	<i>(77)</i>	<i>10</i>
Cash flow from operations	2,244	1,082	1,597	2,136
<i>Capital expenditure</i>	<i>(3,653)</i>	<i>(2,538)</i>	<i>(800)</i>	<i>(600)</i>
Cash flow from investing	(6,638)	(472)	(556)	(435)
<i>Equity raised/ (repaid)</i>	<i>4,816</i>	<i>-</i>	<i>1,448</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(53)</i>	<i>36</i>	<i>(1,948)</i>	<i>(1,500)</i>
<i>Dividend paid</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Cash flow from financing	4,433	(276)	(734)	(1,664)
Net chg in cash	39	334	307	36

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	6.0	6.0	8.0	11.4
CEPS (Rs)	7.4	7.4	9.6	13.0
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
GROWTH				
Net sales (%)	5.6	6.8	45.4	38.4
EBITDA (%)	(0.2)	2.8	35.1	38.8
Adj net profit (%)	(2.2)	0.1	40.2	42.9
FDEPS (%)	(24.8)	0.1	32.8	42.9
PERFORMANCE				
RoE (%)	7.9	6.1	7.8	10.1
RoCE (%)	8.7	6.8	8.9	12.6
EFFICIENCY				
Asset turnover (x)	0.2	0.2	0.3	0.4
Sales/ total assets (x)	0.2	0.2	0.3	0.4
Working capital/ sales (x)	0.1	-	-	-
Receivable days	50.4	44.3	47.5	47.5
Inventory days	6.8	8.9	5.9	4.2
Payable days	149.4	138.4	122.5	122.6
FINANCIAL STABILITY				
Total debt/ equity (x)	0.5	0.4	0.2	0.1
Net debt/ equity (x)	0.2	0.3	0.2	0.1
Current ratio (x)	4.3	2.4	1.5	1.4
Interest cover (x)	3.3	3.8	6.9	14.2
VALUATION				
PE (x)	30.6	30.5	23.0	16.1
EV/ EBITDA (x)	22.2	22.8	16.2	11.1
EV/ Net sales (x)	8.6	8.5	5.6	3.8
PB (x)	1.9	1.8	1.7	1.5
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	(0.1)	(0.1)	-	0.1

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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