

Navkar Corporation Ltd.

| Industry | CMP | Recommendation | Add on Dips to band | Target | Time Horizon |
|-----------|---------|----------------|---------------------|---------------|--------------|
| Logistics | Rs. 190 | BUY | Rs. 190 - 173 | Rs. 218 – 245 | 3-4 Quarters |

| | |
|------------------------|------------|
| HDFC Scrip Code | NAVCOREQNR |
| BSE Code | 539332 |
| NSE Code | NAVKARCORP |
| Bloomberg | NACO IN |
| CMP as on 9 Sep 16 | 190 |
| Equity Capital (Rs Cr) | 142.6 |
| Face Value (Rs) | 10 |
| Equity O/S (Cr) | 14.3 |
| Market Cap (Rs Cr) | 2,717 |
| Book Value (Rs) | 91 |
| Avg. 52 Week Volumes | 372012 |
| 52 Week High | 224 |
| 52 Week Low | 151 |

Promoted by Shantilal J Mehta in 2008, Navkar Corporation (NCL) is a Container Freight Stations (CFSs) operator in India with three CFSs at Panvel, Maharashtra: Ajivali CFS-I & Ajivali CFS-II and Somathane CFS. The company operates in close proximity to the Jawaharlal Nehru Port (JNP), the largest container port in India. The company's three CFSs and private railway freight terminal (PFT) operations are spread over 3.59 million sq. ft., of which 1.63 million sq. ft. have been notified as a customs area.

Investment Rationale:

Company has adopted expansion strategy since its listing in Sep, 2015. And now it has planned to triple its capacities from 3,10,000 TEUs to approximately 10,52,000 TEUs over the next couple of years. After completion of all expansion NCL will have higher market share with increased capacity to handle volume TEUs.

With India poised for a faster economic growth in coming years, the logistics industry is expected to perform better in future. The Company is also well placed for more robust and positive growth in coming years.

NCL's all expansion is expected to get completed till FY17, and by then company will be all ready to ramp up revenue. Some of the revenue collection has already been started in Q1 FY17. We expect company's revenue will grow 19% and 32% in FY17E & FY18E. We expect company's product sale will grow at 25% in FYE18 while sale from services (primary business) will grow at 30% in FYE18.

The Company's all three CFSs and a Private Railway Freight Terminal (PFT) at Panvel are located in close proximity to NH4 (Old Mumbai-Pune Highway) and NH17 (Mumbai-Pune Expressway) and JNPT Port. This provides good connectivity between JNPT - CFS and between CFS and hinterland through road and rail. Talking about VAPI ICD and Logistic park, they also enjoy location benefit as it is 196 Kms from JNPT and 145 Kms from Hazira port Connected through Road (NH 8 & SH 5) and Rail (two stations at a distance of 4 km and 7 km, respectively) both. It has also Proximity to industrial parks of Silvassa, Vapi, Daman, Sarigam and Achhad.

The Company is among the few certified players at JNPT to handle hazardous cargo (chemicals, liquids, etc.) at two of its CFSs and is one of the biggest exporters of Agri commodities at JNPT.

Logistics industry is one of the biggest beneficiary of GST. Unorganized Logistics players avoid tax which generates cost difference and revenues for them. With reduction in cost competitiveness as all the players will be brought under uniform tax and avoidance of taxes will be difficult, thereby improving growth opportunities for the organized players like Navkar.

| Shareholding Pattern (%) | |
|--------------------------|-------|
| Promoters | 72.9 |
| Institutions | 22.8 |
| Non Institutions | 4.3 |
| Total | 100.0 |

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Risk & Concerns:

- Company is at expansion stage, any delay in project completion will affect the revenue
- Heavy dependency on Jawaharlal Nehru Port (JNPT) :
Decline in traffic at JNPT due to capacity constraint or development of other ports or any other reason may adversely affect the level of business activity of the company.

View & Valuation:

With implantation of GST becoming a reality, Logistics industry is up for a transformation. The Company is among the few certified players at JNPT to handle hazardous cargo (chemicals, liquids, etc.) at two of its CFSs and is one of the biggest exporters of Agri commodities at JNPT. NCL has planned to triple its capacities from 3,10,000 TEUs to approximately 10,52,000 TEUs over the next couple of years.

We recommend investors to buy the stock at CMP and accumulate more on dips to Rs. 173 with the targets of Rs218 and Rs245 (based upon FY18E P/E of ~18x).

Financial Summary

| RS Cr | Q1 FY17 | Q1 FY16 | YOY% | FY14 | FY15 | FY16 | FY17E | FY18E |
|---------------|---------|---------|------|-------|-------|-------|-------|-------|
| Net Sales | 90.2 | 82.1 | 9.9 | 349.4 | 328.8 | 347.3 | 425.2 | 574.8 |
| EBITDA | 30.3 | 26.4 | 14.8 | 145.2 | 121.7 | 156.7 | 204.7 | 296.7 |
| APAT | 23.5 | 16.7 | 40.9 | 90.5 | 68.4 | 95.1 | 130.2 | 199.1 |
| EPS (Rs) | | | | 10.2 | 6.2 | 7.4 | 9.0 | 13.7 |
| P/E (x) | | | | 18.7 | 30.4 | 25.7 | 21.2 | 13.8 |
| EV/EBITDA (x) | | | | 19.8 | 23.6 | 18.3 | 14.0 | 9.7 |

Source: Company, HDFC sec Research

Navkar Corporation reported good set of numbers for Q1 FY17: Net profit rose 40.86% to Rs 23.51 crore in the quarter ended June 2016 as against Rs 16.69 crore during the last year same quarter. Sales increased by 8.19% to Rs 87.99 crore in the quarter ended June 2016 as against Rs 81.33 crore during the previous quarter ended June 2015. The company registered a healthy volume growth of 15.2% YoY to 82,191 TEU's in this quarter.

Business Background:

Promoted by Shantilal J Mehta in 2008, Navkar Corporation (NCL) is a container freight stations (CFSs) operator in India with three CFSs at Panvel, Maharashtra: Ajivali CFS-I & Ajivali CFS-II and Somathane CFS. The company operates in close proximity to the Jawaharlal Nehru Port (JNP), the largest container port in India. The company's three CFSs and private railway freight terminal (PFT) operations are spread over 3.59 million sq. ft., of which 1.63 million sq. ft. have been notified as a customs area.

NCL offer services such as cargo storage facilities packing, labeling and bar-coding, palletizing, fumigation, repair and maintenance of containers, storage of empty containers and other related activities at their warehouses and also customize their offerings for the customers.

At the CFSs, NCL can manage a variety of cargo such as bagged, unpacked, heavy lifts, grains, chemicals, steel, metals and project cargos, over-dimensional cargos and out-of-gauge cargos along with the storage and handling of hazardous cargo.

Company is at development stage, it has recently undertaken following expansion plans:

- 4th CFS at JNP
- ICD Near Vapi with a capacity of 4,74,000 TEU
- 36000 TEU ICD of Kribhco Infrastructure Ltd (KRIL) on lease to serve North & Middle Gujarat market
- VAPI's Logistic Park (45% Construction Completed)

Industry Background:

The Indian Logistics Sector has in recent times been in a transformation mode. It is expected to grow at a CAGR of 8.6 percent between 2015 and 2020. The key drivers of this growth are infrastructure investment associated with ports, airports, and other logistics development plans, domestic demand growth and increasing trade.

Government initiatives to promote the manufacturing sector and exports are likely to increase the demand for logistics functions. Trade with Asia, Europe, and North America are likely to remain major drivers for freight forwarding and transportation companies in the region. The booming e-commerce market in India is bringing in new opportunities for Logistics service providers. The evolving business model(s) in this space focuses on containing logistics and delivery costs.

Investment Rationale:**Expansion Strategy in rapidly growing Industry**

Company has adopted expansion strategy since its listing in Sep, 2015. And now it has planned to triple its capacities from 3,10,000 TEUs to approximately 10,52,000 TEUs over the next couple of years. After completion of all expansion NCL will have huge market share with increased capacity to handle volume TEUs.

Setting up an ICD and logistic part at Vapi: The initiative gives proximity to address a potential market of ~1.2 mn TEUs (20-25% of JNPTs volumes) destined/originating from the industrial clusters in South Gujarat. Being the only ICD in this region offering rail and road connectivity, the company will offer cost competitive advantage to customers.

Leasing arrangement with Kribhco Infrastructure Ltd (KRIL): In order to leverage the rapid growth in container traffic at the non-major ports like Mundra and Hazira, we have taken 40,000 TEU ICD of KRIL on lease to serve North and Middle Gujarat market.

With India poised for a faster economic growth in coming years, the logistics industry is expected to perform better in future. The Company is also well placed for more robust and positive growth in coming years.

Ready to Take off

NCL's all expansion is expected to get completed till FY17, and by then company will be all ready to ramp up revenue. Some of the revenue collection has already been started in Q1 FY17. We expect company's revenue will grow 19% and 32% in FY17E & FY18E. We expect company's product sale will grow at 25% in FYE18 while sale from services (primary business) will grow at 30% in FYE18.

Segment wise Revenue Break up

| (Rs Cr) | FY14 | FY15 | FY16 | FY17E | FY18E | CAGR |
|---------------------------|---------------|---------------|---------------|---------------|---------------|------------|
| Sale of Products | 62.68 | 2.69 | 3.23 | 3.94 | 4.92 | - |
| Services Rendered: | 284.99 | 322.99 | 338.25 | 398.79 | 518.18 | 16% |
| Cargo Handling | 213.16 | 236.99 | 262.80 | 302.22 | 386.84 | 16% |
| Cargo Storage | 71.83 | 86.00 | 75.45 | 96.57 | 131.34 | 16% |
| Other Operating Revenue | 1.68 | 3.08 | 5.78 | 11.57 | 24.29 | 95% |
| Total Sales | 349.35 | 328.75 | 347.26 | 414.30 | 547.39 | 12% |

Source: Company, HDFC sec Research

Strategic Location

The Company's all three CFSs and a Private Railway Freight Terminal (PFT) at Panvel are located in close proximity to NH4 (Old Mumbai-Pune Highway) and NH17 (Mumbai-Pune Expressway) and JNPT Port. This provides good connectivity between JNPT - CFS and between CFS and hinterland through road and rail. Talking about VAPI ICD and Logistic park, they also enjoy location benefit as it is 196 Kms from JNPT and 145 Kms from Hazira port Connected through Road (NH 8 & SH 5) and Rail (two stations at a distance of 4 km and 7 km, respectively) both. It has also Proximity to industrial parks of Silvassa, Vapi, Daman, Sarigam and Achhad.

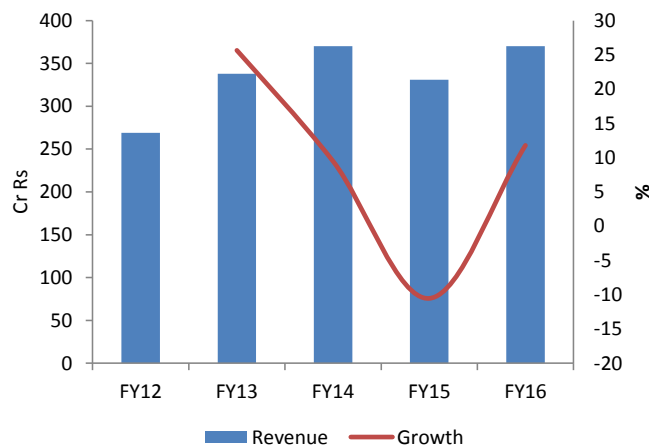
The Company is among the few certified players at JNPT to handle hazardous cargo (chemicals, liquids, etc.) at two of its CFSs and is one of the biggest exporters of Agri commodities at JNPT. Given the rail connectivity at both the ICD and logistics park, lower pricing and close proximity to one of the largest industrial clusters in India, healthy demand is expected and the increase in warehousing utilization and scale up in other ancillary services will aid to the EBIDTA margin.

GST– a Big Boost for organized players.

Logistics industry is one of the biggest beneficiary of GST. At present, every state levy different rates of taxes which affect business decisions on logistics and distribution systems. GST Bill, there will be one tax rate across the country. The GST implementation will also lesser down times at state checkpoints and result in optimized delivery times.

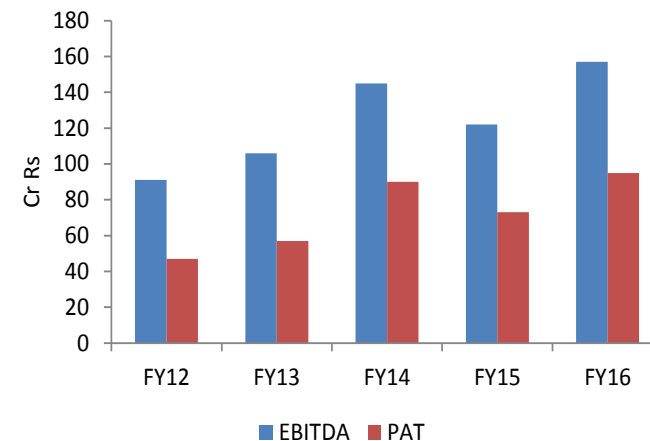
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Revenue Trajectory



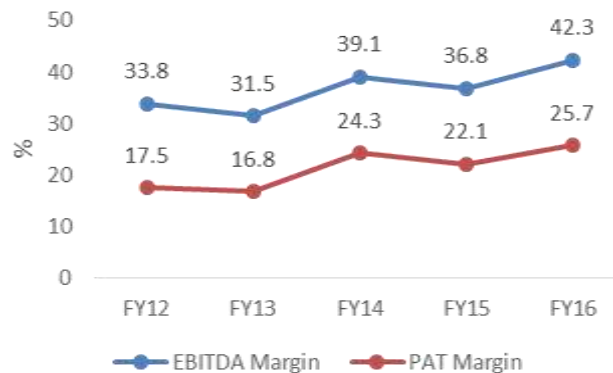
Source: Company, HDFC sec Research

EBITDA and PAT Trend



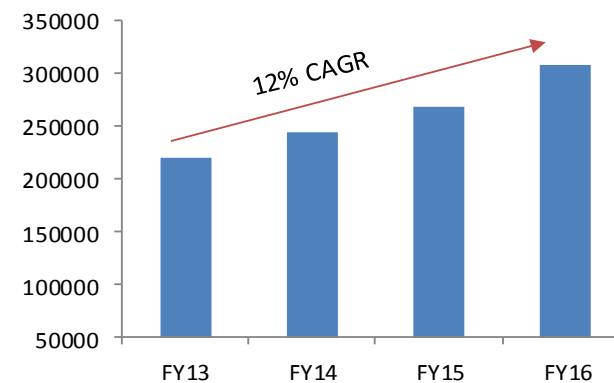
Source: Company, HDFC sec Research

Strong Margin Profile



Source: Company, HDFC sec Research

Cargo Handling Volume (TEU's)



Source: Company, HDFC sec Research

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Income Statement (Rs Cr)

| Year ending March | FY14 | FY15 | FY16 | FY17E | FY18E |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| Net Revenue | 349.4 | 328.8 | 347.3 | 425.2 | 574.8 |
| Other Income | 20.8 | 2.2 | 23.2 | 18.5 | 18.5 |
| Total Income | 370.2 | 330.9 | 370.4 | 443.7 | 593.3 |
| Growth (%) | | -10.6 | 11.9 | 19.8 | 33.7 |
| Operating Expenses | 225.0 | 209.2 | 213.7 | 239.0 | 296.6 |
| EBITDA | 145.2 | 121.7 | 156.7 | 204.7 | 296.7 |
| Growth (%) | | -16.2 | 28.8 | 30.6 | 44.9 |
| EBITDA Margin (%) | 41.6 | 37.0 | 45.1 | 48.1 | 51.6 |
| Depreciation | 13.0 | 15.2 | 19.3 | 25.5 | 32.2 |
| EBIT | 132.2 | 106.5 | 137.4 | 179.2 | 264.5 |
| Interest | 33.0 | 26.4 | 23.1 | 24.3 | 21.7 |
| PBT | 99.1 | 80.1 | 114.3 | 154.9 | 242.8 |
| Tax | 8.6 | 11.7 | 19.1 | 24.8 | 43.7 |
| RPAT | 90.5 | 68.4 | 95.1 | 130.2 | 199.1 |
| Growth (%) | | -24.4 | 39.0 | 36.8 | 53.0 |
| EPS | 10.2 | 6.2 | 7.4 | 9.0 | 13.7 |

Source: Company, HDFC sec Research

Balance Sheet (Rs Cr)

| As at March | FY14 | FY15 | FY16 | FY17E | FY18E |
|-----------------------------------|--------------|---------------|---------------|---------------|---------------|
| SOURCE OF FUNDS | | | | | |
| Share Capital | 20.6 | 112.0 | 144.9 | 144.9 | 144.9 |
| Reserves | 417.9 | 632.0 | 1175.8 | 1306.0 | 1505.1 |
| Shareholders' Funds | 438.5 | 744.0 | 1320.7 | 1450.9 | 1650.0 |
| Total Debt | 343.0 | 430.4 | 418.4 | 389.1 | 350.2 |
| Net Deferred Taxes | 23.0 | 31.9 | 40.3 | 35.3 | 33.3 |
| Long Term Provisions & Others | 1.6 | 2.6 | 3.3 | 2.6 | 2.8 |
| Total Source of Funds | 806.0 | 1208.9 | 1782.7 | 1878.1 | 2036.3 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 699.2 | 1100.8 | 1496.7 | 1717.9 | 1825.7 |
| Investment | 20.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Loans & Advances | 75.4 | 125.5 | 130.2 | 135.3 | 143.2 |
| Total Non Current Assets | 794.8 | 1226.3 | 1626.9 | 1853.2 | 1968.9 |
| Current Investments | 0.0 | 5.0 | 0.0 | 0.0 | 20.0 |
| Inventories | 0.0 | 1.6 | 4.0 | 2.3 | 4.7 |
| Trade Receivables | 76.3 | 77.5 | 48.0 | 64.1 | 89.8 |
| Short term Loans & Advances | 30.5 | 24.3 | 13.1 | 14.5 | 15.6 |
| Cash & Equivalents | 1.2 | 1.1 | 290.3 | 139.6 | 149.3 |
| Other Current Assets | 14.5 | 22.3 | 18.1 | 19.0 | 20.9 |
| Total Current Assets | 122.4 | 131.8 | 373.5 | 239.5 | 300.3 |
| Short-Term Borrowings | 25.3 | 28.0 | 33.4 | 42.7 | 51.7 |
| Trade Payables | 1.4 | 11.6 | 71.7 | 46.7 | 43.1 |
| Other Current Liab & Provisions | 76.6 | 104.2 | 106.8 | 118.6 | 130.4 |
| Short-Term Provisions | 8.0 | 5.3 | 5.9 | 6.5 | 7.7 |
| Total Current Liabilities | 111.2 | 149.2 | 217.8 | 214.5 | 232.9 |
| Net Current Assets | 11.2 | -17.4 | 155.7 | 25.0 | 67.4 |
| Total Application of Funds | 806.0 | 1208.9 | 1782.7 | 1878.1 | 2036.3 |

Source: Company, HDFC sec Research

Cash Flow Statement (Rs Cr)

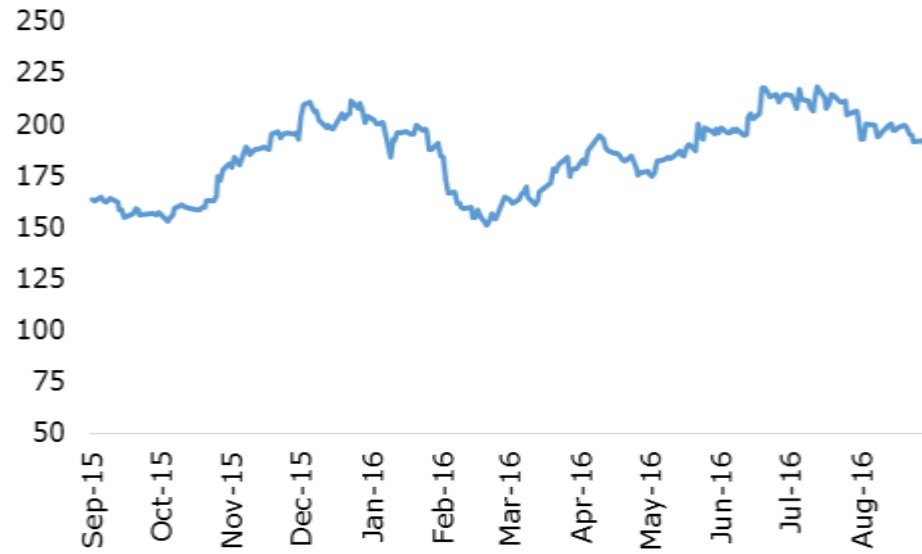
| Year ending March | FY15 | FY16 | FY17E | FY18E |
|--------------------------------|---------------|---------------|---------------|---------------|
| Reported PBT | 80.1 | 114.3 | 154.9 | 242.8 |
| Non-operating & EO items | 145.7 | 425.8 | -18.5 | -18.5 |
| Interest Expenses | 26.4 | 23.1 | 24.3 | 21.7 |
| Depreciation | 15.2 | 19.3 | 25.5 | 32.2 |
| Working Capital Change | 28.4 | 116.2 | -19.9 | -32.7 |
| Tax Paid | -11.7 | -19.1 | -24.8 | -43.7 |
| OPERATING CASH FLOW (a) | 284.1 | 679.6 | 141.5 | 201.7 |
| Capex | -418.0 | -414.8 | -247.0 | -140.0 |
| Free Cash Flow | -133.9 | 264.7 | -105.5 | 61.7 |
| Investments | -29.8 | -4.7 | -5.1 | -7.9 |
| Non-operating income | 2.2 | 23.2 | 18.5 | 18.5 |
| INVESTING CASH FLOW (b) | -445.6 | -396.4 | -233.6 | -129.4 |
| Debt Issuance / (Repaid) | 96.4 | -3.7 | -34.3 | -40.9 |
| Interest Expenses | -26.4 | -23.1 | -24.3 | -21.7 |
| FCFE | -63.9 | 237.9 | -164.1 | -0.9 |
| Share Capital Issuance | 91.4 | 32.9 | 0.0 | 0.0 |
| Dividend | 0.0 | 0.0 | 0.0 | 0.0 |
| FINANCING CASH FLOW (c) | 161.4 | 6.0 | -58.6 | -62.6 |
| NET CASH FLOW (a+b+c) | -0.1 | 289.3 | -150.7 | 9.7 |
| Closing Cash | 1.0 | 290.3 | 139.6 | 149.3 |

Source: Company, HDFC sec Research

Key Ratio

| Key Ratios (%) | FY14 | FY15 | FY16 | FY17E | FY18E |
|-------------------------------|-------|-------|-------|-------|-------|
| EBITDA Margin | 41.6 | 37.0 | 45.1 | 48.1 | 51.4 |
| EBIT Margin | 37.8 | 32.4 | 39.6 | 42.2 | 46.0 |
| APAT Margin | 25.9 | 20.8 | 27.4 | 30.6 | 34.6 |
| RoE | 20.6 | 11.6 | 9.2 | 9.4 | 12.8 |
| RoCE | 16.4 | 8.8 | 7.7 | 9.5 | 13.0 |
| Solvency Ratio | | | | | |
| Net Debt/EBITDA (x) | 252.9 | 371.8 | 103.0 | 142.7 | 78.4 |
| D/E | 0.8 | 0.6 | 0.3 | 0.3 | 0.2 |
| Net D/E | 0.8 | 0.6 | 0.1 | 0.2 | 0.1 |
| Interest Coverage | 4.0 | 4.0 | 5.9 | 7.4 | 12.2 |
| PER SHARE DATA | | | | | |
| EPS | 10.2 | 6.2 | 7.4 | 9.0 | 13.7 |
| CEPS | 50.3 | 7.5 | 7.9 | 10.7 | 16.0 |
| BV | 238.6 | 67.6 | 91.1 | 100.1 | 113.9 |
| Dividend | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Turnover Ratios (days) | | | | | |
| Debtor days | 80 | 86 | 50 | 55 | 57 |
| Inventory days | 0 | 1 | 3 | 2 | 3 |
| Creditors days | 4 | 31 | 182 | 105 | 75 |
| VALUATION | | | | | |
| P/E | 18.7 | 30.4 | 25.7 | 21.2 | 13.8 |
| P/BV | 0.8 | 2.8 | 2.1 | 1.9 | 1.7 |
| EV/EBITDA | 19.8 | 23.6 | 18.3 | 14.0 | 9.7 |
| EV / Revenues | 8.2 | 8.7 | 8.3 | 6.8 | 5.0 |

Source: Company, HDFC sec Research



Rating Definition:

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

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