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Navkar Corporation Ltd. (NCL). : "SUBSCRIBE"

22nd Aug, 2015

Incorporated on 29th September 2008, Navkar Corporation Limited ("NCL") is a Container Freight Stations ("CFS") operator in India with three CFSs, Ajivali CFS-I and Ajivali CFS-II at Ajivali and Somathane CFS at Somathane, which are strategically located in Panvel, Maharashtra, in close proximity to the Jawaharlal Nehru Port ("JN Port"), the largest container port in India. The company is promoted by Shri Shantilal Jayavantraj Mehta- Chairman and Managing Director of the company and Shri Nemichand Jayavantraj Mehta – CEO of the company, who have several years of experience in the container freight business and has established business relationships with shipping lines, logistical service providers and customs house agents.

High utilization of CFS

As of May 31, 2015, Company's CFSs had an aggregate installed handling capacity of 310,000 TEUs p.a. on the basis of the then current infrastructure and operating equipments. For the financial years 2013, 2014 and 2015, the total container volume handled at NCL CFSs was 220,182 TEUs, 244,128 TEUs and 268,836 TEUs, respectively, representing a CAGR of 10.5% between the financial years 2013 and 2015. For the financial year 2015, the revenue from cargo handling services was Rs.236.99 Crores, or 71.6% of the total revenue.

Warehousing Capabilities to Service Varying Requirements of Client

NCL's warehouses are spread over an aggregate area of 500,000 sq. ft. which includes a bonded warehouse area of 60,782 sq. ft., 118,000 sq. ft. area designated for the consolidation of LCL containers and 5,000 sq. ft. area designated as a buffer yard. Further, they have a container depot where their customers can store approximately 5,000 TEUs of empty containers and NCL provide repair and maintenance services for containers, which results in a quick turnaround time for the transportation of containers. The warehouses and the ability to offer other ancillary storage and handling services allow NCL to cater to the service requirements of a wide variety of customers.

Key customers

NCL is working with shipping lines, logistical service providers and customs house agents, importers and exporters. The leading shipping lines and customs house agents that NCL work with include, United Arab Shipping Agency Co. (I) Pvt. Ltd., NYK Line (I) Ltd., Hyundai Merchant Marine India Pvt. Ltd., Evergreen Shipping Agency (I) Pvt Ltd., and S. Ramdas Pragji Forwarders Pvt. Ltd.

Tax benefit

NCL is engaged in providing Container Freight Station ('CFS') facilities. The profits and gains derived are eligible for deduction under section 80-IA of the I-Tax Act, subject to conditions specified in the said section. The deduction, at the option of the assessee, is available for any 10 consecutive assessment years out of 15 years beginning from the year in which business operation started. NCL has three CFSs and the said deduction is available to the Company upto FY 2018-19 (AY: 2019-20)

Outlook, Valuation and Recommendation -

At the upper end of the price band, the issue is valued 30x at FY15 post IPO diluted EPS of Rs. 5.21/- With due consideration to factors like a) strategically located in close proximity, including connectivity to the JN Port through NCL's Private Freight Terminal, b) dedicated infrastructure to handle cargo, c) warehousing capabilities to service varying requirements of clients, d) well established relationships with shipping lines and customs house agents, e) robust OPM with decent ROE, f) positive operating cashflow, we believe the Company's issue is fairly priced in terms of post IPO Market Cap/Sales. Hence, we recommend "SUBSCRIBE" to the issue.

Issue date	August 24- 26, 2015			
Issue size	Fresh issue of Rs. 5,100 mn and offer for sale of Rs. 900 mn at upper price band			
Face Value	Rs.10			
Price Band	Rs. 147 - 155 per share			
Lot size	95 equity Shares and in multiples of 95 equity shares thereof			
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%			
Industry	Logistics (CFS & Rail terminals)			
Equity shares post issue	142.6 mn equity shares			
Post issue market capitalization	Rs. 22,103 mn. at upper price band			
Book Running Lead Managers	Axis Capital, Edelweiss, SBI Capital Markets			
Registrar to the issue	Link Intime India Pvt. Ltd.			
Y/e 31 Mar (Rs. mn)	FY15	FY14	FY13	FY12
Total income	3,288	3,494	3,334	2,680
Growth (%)	(5.89)	4.80	24.37	29.7
EBITDA	1,198	1,241	1,018	901
EBITDA Margin (%)	36.4	35.5	30.5	33.6
Reported PAT	743.6	900	567	470
PAT margin (%)	22.6	25.76	17.01	17.52
Post issue EPS (Rs.)	5.21	6.31	3.98	3.30
Equity Capital	1120.05	205.84	170.84	134.35
Networth	7438.63	4336.49	3086.43	2,086.94
RoE (%)	9.9	20.8	18.4	22.5
Shareholding Pattern (%)	Pre Issue			
Promoters	72.19			
Promoter group	20.43			
Siddharta Corp. Pvt. Ltd.	7.38			
Total	100			



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Company and promoters background

Navkar Corporation Ltd ("NCL") was on September 29, 2008 as a public limited, pursuant to the conversion of a partnership firm, M/s Navkar Infra and Logistics Corporation.

The company is promoted by Shri Shantilal Jayavantraj Mehta- Chairman and Managing Director of the company and Shri Nemichand Jayavantraj Mehta - Chief Executive Officer of the company, who have several years of experience in the container freight business and has established business relationships with shipping lines, logistical service providers and customs house agents.

Ajivali CFS I and Ajivali CFS II were set up by Preeti Logistics Limited ("PLL"), previously a wholly owned subsidiary of the Company. Subsequently, in 2010, PLL amalgamated with the Company pursuant to a Scheme of Amalgamation with effect from April 1, 2009 and the entire business of PLL was deemed to be vested in the company, including all statutory licenses and permissions for operating CFSs. Additionally, the Company has also established a CFS at Somathane in 2009.

Importance of CFS and ICD business

Container freight stations ("CFSs") and inland container depots ("ICDs") are common user facilities with public authority status equipped with fixed installations. CFSs and ICDs offer a wide range of services including customs clearance, handling and the temporary storage of import or export laden and empty containers. CFSs and ICDs comprise of a custom bonded area, warehousing space and container yard area and are equipped with information technology infrastructure and adequate equipment. It provides an integrated platform for activities such as custom clearance, handling, transporting, loading and unloading and stuffing and de-stuffing of containers. CFSs and ICDs also provide services such as less-than-container-load ("LCL") consolidation, reefer services and hub and spoke services, among others. The CFS and ICD industry forms a link between multi-modal transport operators ("MTOs") and shipping lines in the logistics value chain. A CFS is located near the gateway port (off-dock facility located near service ports) whereas an ICD (also known as a dry port) is located in the hinterland.

A CFS or an ICD is involved in an EXIM transaction at embarkation as well as disembarkation. CFSs and ICDs play an important role in decongesting the harbour and their primary role is to facilitate the clearance of the cargo for export out of the country or import into the country, consolidation and de-consolidation of cargo and allow a port to function as a transhipment point. The distribution of CFSs in, and around, the port and of ICDs in the hinterlands helps in increasing the handling capacity of a port.

Capacity and Infrastructure

As of May 31, 2015, company's CFSs had an aggregate installed handling capacity of 310,000 twenty Foot equivalent units ("TEU") p.a. on the basis of the then current infrastructure and operating equipment. NCL has a private railway freight terminal ("PFT") which allows them to load and unload cargo from container trains operating between their Somathane CFS and the JN Port and to transport domestic cargo to and from inland destinations on the Indian rail network. As of May 31, 2015, NCL also own and operate 516 trailers for the transportation of cargo between their CFSs and the JN Port by road. NCL can handle cargo at controlled temperatures at their temperature controlled chamber and through the 92 Reefer plug points at their CFSs. They are also certified to handle hazardous cargo at the Ajivali CFS II and at Somathane CFS. NCL provides cargo storage facilities at their CFSs which include a buffer yard and warehouses for the storage of cargo. NCL also offer services such as packing, labelling/bar-coding, palletizing, fumigation and other related activities at their warehouses and also customize their offerings for the customers. NCL's warehouses are spread over an aggregate area of 500,000 sq. ft., which includes a bonded warehouse of 60,782 sq. ft. and an area of 118,000 sq. ft. designated for the consolidation of less than container load ("LCL") containers. Their CFSs also has a customs facility for the examination and clearing of cargo and the Somathane CFS has a unit for the inspection and approval of agricultural cargo set up by the plant and quarantine authorities of the Ministry of Agriculture, Government of India. NCL also provide services for the repair and maintenance of containers and the storage of empty containers at their CFSs.

Further, the company owns and operates 516 trailers (including low bed trailers) for the transportation of cargo between CFS' and the JNPT port. Also, NCL has 36 forklifts and 21 reach stackers in its fleet profile.



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NCL's CFSs and their cargo handling infrastructure:

Particulars	Ajivali CFS I	Ajivali CFS II	Somathane CFS
Location	Ajivali Village, Panvel	Ajivali Village, Panvel	Somathane/Ashte village, Panvel
Area Custom Nitified	135,156 sq. ft.	428,400 sq. ft.	10,73,224.35 sq. ft.
Operational since	12th May 2008	18th May 2006	11th May 2009
Installed Capacity p.a.	25,000 TEUs	65,000 TEUs	220,000 TEUs
Bonded Warehouse	-	27,641 Sq. ft.	33,141 sq. ft.
Reefer Point	16	24	52
Temperature controlled Chambers	-	500 m³	-
Hazardous Cargo	-	Authorised to handle, store and deliver hazardous cargo up to the total installed capacity p.a.	Authorised to handle, store and deliver hazardous cargo up to the total installed capacity p.a.
Connectivity	Road	Road	Rail and Road

Source: RHP

Other Services

As a part of the cargo handling services, NCL offer services such as Packing, Labelling, Palletizing, Shrink wrapping, Strapping, Jumbo-bags packing and Carting as described below:

Packing Service: NCL provide all types of customized packing of loose goods or small unit sized fragile goods.

Labelling service: NCL label all consignments received at their CFSs with the relevant consigner and consignee contact information.

Palletization services: Services are primarily used for LCL freight whereby boxes are stacked, shrink, wrapped and secured to reduce the risk of product damages or loss during transport.

Shrink wrapping services: to protect cargo from pollutants and theft and strapping services for organizing cargo into a transportable unit.

Services to Agro Products: Agro products are typically received as loose cargo at the CFSs, NCL therefore provide jumbo-bags packing for the packing and export of agro products.

Carting Services: NCL also offer carting services for valuable or fragile goods, large items or certain kinds or irregular or fragile commercial freight, in addition to providing ready-made and custom made solid crates.

These services are typically combined with the other cargo handling services depending on the requirements of the customers.

Objects of the issue

- 1) Offer for sale (OFS) of Rs 900 mn by one of the selling shareholders (Sidhhartha Corporation Pvt Ltd).
- 2) NCL propose to establish a fully-integrated logistics park at Umangaon, Valsad district (Near Vapi), Gujarat where they intend to provide a variety of warehousing and value added services. Further, through their subsidiary, Harvard Credit Rating Agency Ltd ("HCRAL"), NCL are in the process of developing an ICD adjacent to their logistics park. NCL intend to offer their services at their logistics park and their ICD as a one-stop solution for importers and exporters. NCL also intend to develop a warehouse equipped with facilities to handle hazardous cargo and a railway siding to facilitate the transportation of cargo at the proposed ICD, subject to receipt of necessary approvals.



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Utilization of funds

No.	Description	Amount (Rs. in mn)
1.	Capacity enhancement of the Somathane CFS	1145.28
2.	Development of the non-notified areas of NCL's CFS	542.51
3.	Establishment of a logistics park at Valsad (near Vapi)	3145.64
		4,833.43

Source: RHP

Business Strategy

To Grow Container Logistics Business and Expand to New Geographies

NCL has to expand the facilities and infrastructure to service the growing container freight traffic in India. Total container traffic at Major Ports in India increased at a CAGR of 2.5% from 6.58 million TEUs (93.39 million tons) for the financial year 2009 to 7.46 million TEUs (114.64 million tons) for the financial year 2014. The total container volume handled at the increased at a CAGR of 13.4% from 184,188 TEUs for the financial year 2012 to 268,836 TEUs for the financial year 2015.

The proposed ICD at Umergaon, Valsad district (near Vapi), Gujarat is expected to have an initial planned capacity of 474,000 TEUs.

It is also planned to include warehouses with facilities to handle hazardous cargo and a railway siding facility to facilitate the transportation of cargo, subject to receipt of necessary approvals. The Vapi-Valsad-Daman Silvassa-Surat-Ankleshwar-Bharuch-Baroda belt is one of the largest and most vibrant industrial clusters in India, covering industries such as chemicals, textiles, engineering, food products, steel and paper. Vapi is also being proposed as one of the 100 smart-cities that are being planned all across India. The states of Maharashtra and Gujarat have significant industrial activity that requires container freight handling and transportation and NCL is intend to leverage the location of their existing CFSs and proposed ICD to capitalize on this opportunity.

Focus on Railway Logistics for the Transportation of Cargo

NCL's present CFSs are well positioned to service container traffic in northwest, west and central India. **NCL seek to explore the Rail Logistics Network** across the country by setting up distribution hubs or ICDs near railway sidings in major business cities to capitalise on the growing container traffic in the country.

The Railways in India is the preferred mode of transport for bulk commodities since they have large rakes which can carry a higher load. In addition, the cost of freight transportation by rail is lower than road freight tariffs. Also the rail sidings are generally installed at plants or warehouses in the case of large businesses in the bulk commodities segment. This eliminates multiple handling and lowers last mile connectivity costs, which makes the railways a more economical route for transportation of bulk commodities.

The Indian Railways also proposes to develop dedicated freight corridors connecting the four metros of Delhi, Chennai, Kolkata and Mumbai and NCL is leverage the opportunities offered by such developments in railway logistics to ensure that their cargo is transported in a timely and secure manner to develop better relationships with the customers.

Continue to Focus on Improving Operational Efficiency

The CFS industry in India is a highly competitive and fragmented industry and NCL continue to improve the operational efficiency and customer service quality. They aim to enhance the container freight handling abilities at their CFSs by upgrading the systems and investing in the infrastructure. Further, NCL continue to invest in their existing technologies to track the transportation of their trailers between the CFSs and the JN Port to ensure reliability and better control on the transportation of containers.

Continue to Focus on Ancillary Services

NCL continue to focus on ancillary services to capture greater cargo volumes. NCL engage with shipping lines and customs house agents they work with to provide solutions for their ancillary cargo handling requirements such as packing, labelling, palletizing, shrink wrapping, strapping, jumbo-bags packing and carting. A greater focus on such services will allow NCL to attract more cargo volumes as all cargo handling requirements will be catered to by a single service provider. Further, in



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order to complement the proposed increase in the stacking capacity post the installation of the RTGC system at their Somathane CFS, they propose to develop certain non-notified areas in their Ajivali CFS I, Ajivali CFS II and Somathane CFS which will primarily be used as parking facilities, drive-way for the trailers transporting the containers, storage of empty containers and other ancillary services which they may provide.

NCL propose to establish a fully-integrated logistics park which will provide a host of warehousing and value added services including cold storage facility for perishable goods, a container maintenance, repair and cleaning yard, an empty container yard, and modern garage facility with a workshop for maintenance of vehicles. NCL intend to set up this logistics park adjacent to their proposed ICD and offer this location as a one-stop solution for importers and exporters.

Key risks and concerns

Increasing Competition

NCL is facing increasing competition from a number of international, regional and domestic logistics companies. Many of their competitors may have significantly greater financial and marketing resources and operate larger global networks. NCL may be further constrained by their competitors' ability to expand their market share of customers and distribution networks by forming alliances with other logistics service providers or consolidating with other container freight station operators or container shipping companies. NCL's ability to compete effectively may also be constrained if they lose any member of the key management team or an employee who has established relationships with their trade counterparts.

Trade Volumes and Economic Conditions

NCL's results of operations are dependent on the economic environment of the markets in which NCL operate the volume of international trade as well as the import and export volumes in India. NCL primarily provide services to parties engaged in international commerce. Factors that affect international trade, such as macroeconomic developments, trade barriers, inflation and interest rates, fuel prices, political developments, labour issues and natural disasters, may impact their areas of operation or contract their primary market and consequently their operating results.

The demand for the services (and consequently the results of operations) continue to be sensitive to domestic and, increasingly, global economic conditions and other factors beyond the NCL's control. Increases or decreases in the volume of freight transported, shippers' preferences as to the timing of deliveries as a means to control shipping costs, economic and political conditions, work stoppages, Indian and foreign laws relating to tariffs, trade restrictions, foreign investments and taxation are likely to continue to have a significant impact on the company business, growth and profitability.

Further, NCL source their business primarily from shipping lines and customs house agents who in exchange for fees, engage NCL to transport cargo to and from NCL's CFSs on behalf of exporter and importers. During the financial years 2013, 2014 and 2015, NCL handled for their Top 3 shipping line trade counterparts, approximately 53,151 TEUs, 44,327 TEUs, and 48,613 TEUs, constituting 48.5%, 34.1% and 32.7%, respectively, of the total container volume handled. NCL may continue to remain dependent on them for a substantial portion of their revenues.

Too much reliance on a single port

The Company is dependent heavily on the business volumes generated from JNPT port. In Q1FY16, volumes at JNPT port in Q1FY16 witnessed a tepid growth of 3% which is not upto mark. Going ahead, an increase in number of CFS/ICD operators and meagre volume growth would result in decline of margins owing to cut in prices.

Foreign currency risk

NCL has foreign currency denominated borrowings of Rs. 2600 mn and is, thus, exposed to fluctuations in exchange rates for which Company enters into option contracts for the purpose of hedging. In FY14, the company had an income of Rs. 170 mn. However, the hedging cost during the same period was Rs. 90 mn. In FY15, Navkar reported a foreign exchange loss of Rs. 140 mn and hedging cost of Rs. 30 mn which led to decline in ROE to 9.9 percent (FY15) from 20.8 percent (FY14). Any losses in future arising out of Company's hedging can affect the earnings performance of the Company significantly and dent investor's confidence.



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