

“Navkar Corporation Limited Q2 FY-22 Earnings Conference Call”

November 15, 2021

**MANAGEMENT: MR. ANISH MAHESHWARI – CHIEF FINANCIAL
OFFICER, NAVKAR CORPORATION LIMITED**

MODERATOR: MR. VIRAL SHAH – YES SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to the Navkar Corporation Limited Q2 FY22 Earnings Conference Call hosted by Yes Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ zero on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Viral Shah from Yes Securities. Thank you and over to you sir.

Viral Shah: Thank you Janice. Good afternoon everyone. I welcome all the participants to the Q2 and first half FY22 results conference call of Navkar Corporation Limited. We have with us Mr. Anish Maheshwari, the CFO of the company. We would commence the call with opening remarks from Maheshwari to give an overview on the company's performance and which will be followed by a Q&A. Over to you sir for the opening remarks. Thank you.

Anish Maheshwari: Good afternoon and very warm welcome to everyone present on the call. Thanks to Yes Securities for giving us an opportunity to share Quarter 2 results. In the figure of the results presented for Quarter 2, I would like to mention that position of the current quarter is almost in line with the preceding one. The priority of the company to improve the profitability in line with the natural growth of business volumes in current units of the company. The elements of revenue of the company during the quarter are as follows:

- In case of ICD/PFT;

Volume of import containers handled declined by 12.9% from 30,368 TEU's to 26,434 TEU's on Q-o-Q basis. And from 18,442 TEU's on Y-o-Y basis the same is up now by 43.3% year-on-year basis. And the volume of exports container handled remain similar from the 19,767 TEU's to 19,613 TEU's on a Q-o-Q basis. And from 13,816 TEU's on Y-o-Y basis, the same has increased by 41.9%.

- In case of CFS/PFT;

Volume of import containers handled stand by 29,297 TEU's from 30,364 TEU's on Q-o-Q basis which has declined by 3.5%. And from 21,909 TEU's on Y-o-Y basis, the same is now up by 33.7% and volume of exports container handled declined by 25.4% from 25,455 TEU's to 18,980 TEU's on Q-o-Q basis. And from 20,182 TEU's on Y-o-Y basis, the same is now down by 6%.

- Number of trains handled decreased by 312 in last quarter to 260 at CFS/PFT and from 766 to 728 ICD/PFT which is an overall decline by 9.1% on Q-o-Q basis. Comparing the same with Y-o-Y basis the train handled were 237 in the CFS/PFT and 453 in ICD which has overall raised by 42.03%.
- EXIM turn over turnover declined by Rs. 163.01 crores to Rs. 146.42 crores on Q-o-Q basis, means a decline of 10.2% and this is a raise by 38.3 from that in same quarter

of last year of Rs. 105.88 crores. Company is committed to the path of growth to extend the client base in EXIM as well as the domestic turnover. And this decline of TEU's handling data is due to the Q2 rainy season which is as ever in a slightly decline in the compared quarters.

In terms of revenue and business, the quarter stands by too at a similar level as compared to the last one. There were challenges post the COVID era, but the performance of the company was positive in terms of maintaining growth business volumes. Now coming on the profit figures of the Quarter 2 FY21-22.

- Operating profit of the current quarter stands at Rs. 71.9 crores in comparison to Rs. 73.46 crores in preceding, which shows a mild dip of 2.1%.
- EBITDA margin of current quarter stands at Rs. 47.19 crores in comparison of Rs. 49.25 crores in preceding one was saw a small dip by a 4.1%. The fall in EBITDA margins belongs to the certain reasons. Small dip in the terminal of Rs. 220.84 crores in last quarter to Rs. 215.49 crores in the current quarter. This was a small decline of 2.4% pertaining to the rainy season this quarter.
- The depreciation cost of the company increased by Rs. 18 lakhs in current quarter as compared to that in last one. The reason for the same was increase in depreciation costs due to the calculation of assets in the last quarter, as well as assets added during the quarter.
- Profit before tax of current quarter at Rs. 18.85 crores in comparison of the Rs. 22.25 crores Q-o-Q basis and that of Rs. 9.6 crores in Y-o-Y basis. Profit after tax, the company stands at Rs. 11.6 crores in comparison to Rs. 12.59 crores on a Q-o-Q basis, and Rs. 6.5 crores on a Y-o-Y basis.
- The tax expenses declined from Rs. 9.16 crores to Rs. 7.2 crores on Q-o-Q. This includes the changes of accounts. Now our cumulative tax burden in the current quarter due to the lower PBT in the current quarter.

Now I just want to give some light on our new projects. I just want it to be mentioned over here, the reason behind idea of setting up ICD Morbi region in Gujarat. Morbi is the industrial area having major business entity in the industry ceramic, cloth, paper mills and Morbi is also called as the ceramic city of India. So for Morbi we got the letter of intent from the Government of India and, also we got the preapproval letter from the Railway. I just wanted to add over here major business houses like Ajanta India, Bell Sanitaries which in operate in India, Sun Arch Industries and major transportation activities are conducted through the traditional roadways mode only. The idea of our company is to provide cost effective rail transportation using the private train terminal facility as an extension of Indian Railways network. The area is rich in terms of business, but there is a lot of scope and improvement of transportation of network. We have learned to grab this opportunity and become leading logistics solutions provider in that area.

The company has received a letter of intent on 26th of 2021 and we got the in-principle approval for construction Private Freight even in Manawar, Maliya, Morbi district. For this purpose company has acquired land base at that same location. The management in completing the complete two terms of LOI by the timeline and make ICD operational by that time. The purpose of new ICD is to have better connectivity and network to serve the customers better in domestic market, as well as for the EXIM business, and we just wanted to leverage our existing facilities like Bombay we have a railway PFT as well as we have a railway PFT in Vapi. So, we just wanted to be made reach our area in term of domestic as well as the export, EXIM market.

After all the point of analysis, I hereby like to state that the company performance, the growth of revenue was almost at par when the slight decline and the same is having corresponding impact on the profitability. Looking at this company hopes to squish into operations and profitability in coming two quarter beyond which the profitability will improve and profit will be there.

Now we are open the floor for the Q&A session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: So, sir your EBITDA margins have dropped this quarter. If you could indicate why they have dropped?

Anish Maheshwari: So, basically if you see our top-line versus our EBITDA margins are on the similar lines. My top-line for last quarter, we have a top-line of Rs. 221 crores versus this quarter we have a Rs. 2 lakh 15 crores. So, there is a slight dip on the sales as well as the profit.

Rishikesh Oza: Sir, volumes also have dipped slightly. But revenues are fairly stable quarter-on-quarter if I see. So is this because of higher realization?

Anish Maheshwari: Yes, definitely.

Rishikesh Oza: Okay. So are these realizations sustainable going ahead? Because I think last two, three quarters we are seeing a higher realization levels.

Anish Maheshwari: Yes, absolutely. Because our Vapi operations are much higher than the comparative quarters and Vapi realization is comparatively higher than the Bombay business volumes. So if you see in my commentary also, we are having a business dip in Bombay comparative to Vapi. So that is the reason our per TEU realization in Vapi is on the higher side compared to Bombay.

Rishikesh Oza: So given these realizations are sustainable, as Vapi grows our revenue should also grow, right?

Anish Maheshwari: Yes definitely.

Rishikesh Oza: Okay. So, what EBITDA margin guidance would you maintain sir for the next second half and for FY23?

Anish Maheshwari: So, in the past three or four quarters, you will see that our EBITDA margins are on the improving side and now we are having average of around 22 to 23%, and our first target which I had already been told in last quarter also, and now also we just wanted to give you a highlight on this. Our first target to achieve EBITDA margins of 25%, which is now in the range of 22 - 23%.

Rishikesh Oza: Okay. How soon could that happen and why?

Anish Maheshwari: So basically, there may be a trigger figure for the business operations. First thing, the sales which we are focusing. Secondly, now we are established in the domestic market also where we put our trains and all other efficiency. Now in couple of quarters we are having hope that it will stabilize with the same numbers like in past, three or four quarters if you see our domestic numbers are growing on the higher side, correct? So once that will be stabilized with; now we are having around Rs. 61 – Rs. 62 crores domestic value, which will be in the range of Rs. 70 crores, then our cost will be at par, that is our first target. Because fixed costs will remain same and the business operations will be on the higher side. So that will be a trigger figure for us for improving our EBITDA margins.

Rishikesh Oza: So you are saying couple of quarters it will take for you to reach in 25% kind of range, correct?

Anish Maheshwari: Yes.

Rishikesh Oza: And that should continue in FY23?

Anish Maheshwari: Yes.

Rishikesh Oza: Okay. Also, sir our tax rates are very high. So if you could indicate going ahead what tax rates do you foresee?

Anish Maheshwari: Tax rates will remain the same sir.

Rishikesh Oza: So around 40% odd tax rates that we have been maintaining, so that will be same? The effective tax rates.

Anish Maheshwari: Yes, it will remain the same. It may sometimes be around 42%. It maybe going down by 35%.

Rishikesh Oza: Okay. So when will this new CAPEX come in and what is the potential for this?

Anish Maheshwari: So, basically Manawar ICD which we are proposing and we got on the LOI, so what we did in last quarter, we took some loans from our existing bankers. Like we did take a sum of around Rs. 170 odd crores loan out of which we repaid the existing debt of around Rs. 106 crores for our existing repayment till next year. So, we are having advanced repayment of around Rs. 5 crores per month for the next 12 months. So we got a ballooning for around Rs. 60 – 70 crores. So till the time we are not taking any kind of further burden for loan, with that money, with that cash flow, we will be using our cash flow to making new ICD; that is our idea. So no financial tie up which we are doing for the new project, and we have around 40 acres land development

where there. So it will take around a years' time. So by the time our operations for the manufacturing to make the ICD has already been started. So with that repayment of existing debt, we will be using our cash flows to make that ICD; that is our fair idea. So, if we will require any kind of a further debt or further loan, it may take another one year's time.

Rishikesh Oza: Okay. So one year to put that CAPEX, you are saying, right?

Anish Maheshwari: Yes. So what we did, we did some financial engineering with a tenure of 7 years loan for Axis and other banks. With that existing loan, we will repay the 12 months EMI in advance.

Rishikesh Oza: Okay. And what will be the capacity for the CAPEX that you are going to incur?

Anish Maheshwari: That will be in the range of 2,00,000 TEU's per year.

Moderator: Thank you. The next question is from the line of Sudarshan, an individual investor. Please go ahead.

Sudarshan: You mentioned like you would be applying for MAT credit from this year onwards. So any progress in this regarding?

Anish Maheshwari: So, we will decide on that on Quarter 4, because we will have to evaluate the profitability, then after we will go for the MAT, based on the future estimations. So we were proposing earlier that we will be taking MAT credit from this year, but, the situation of COVID, we just avoid taking that kind of credit in this year. Once we get at par in the next couple of quarters, then definitely we will take a decision in the next period.

Sudarshan: You have mentioned in the past either you will go for MAT or the new tax norms which is like without any exemptions kind of thing in the past. So that decision will be taken only by Q4 or when it will be?

Anish Maheshwari: So, it will be applicable for the entire year. If I will decide for Q4, then it will be for the entire year.

Moderator: The next question is from the line of Viral Shah. Please go ahead.

Viral Shah: A couple of questions from my end. One it terms of our strategy, where we are expanding the foot print across the verticals. Could you elaborate more on our strategy going forward, how we would like to capitalize market both on the EXIM and domestic front? And what is the beneficiary and cost saving which is expected from the leverage what we have? That is the first question from my end.

Anish Maheshwari: So, Viral I just wanted to be elaborate here. If, I think so my new facility at Morbi will be taking from day one to one and a half years. Meanwhile what we are going to do, we are just making sure that our team will be visiting over there on a regular basis. We are taking further business in Morbi till Mundra and Pipavav and further towards the North. Because we have CFS over

there in Mumbai which is down in South and then we have ICD first step of North and then again we are making another ICD over there in Morbi. So we will get that cross selling business over there for the three or entire entity for the domestic purpose. And EXIM also, wherever we have facility in Vapi ICD from there to JNPT Port Mumbai and from the Morbi-Mundra and Pipavav port movement. So this is our core idea. And further we are going towards the north where we had seen, like I will just give you the example. Yesterday we had a discussion with our marketing team. So from the North Rajasthan side, the raw material for the making of tiles and others coming from there to Nagor and further districts. And at the same time coal is going from the Morbi side. So that kind of a business we are taking as cross selling. This is just an example. 26th of October we got the LOI, from this month onwards our ICD operations will start for the construction side. It will take I think so hardly 18 months of our time. Till that time we are evaluating that which kind of cross selling capabilities we have for all three entities. So once we get in that clear idea and we have already researched on that. So today we are at that position, Morbi will be similar as our ICD Vapi in the next 2 or 3 years. That is our core idea because Morbi is also having 15,00,000 TEU's volume handling capability over there per year. Plus the domestic market is having a huge volume potential. So it will be we are only making a 2,00,000 TEU's volume capability, hardly. And second thing with the cushion, at the time of IMC meeting also, the authorities were asking the same questions. You will be having an establishment over there with the Railway PFT and what do you have foreseen reason with you, you will become a first more advantage, absolutely. But if you like to be visualized that road operations, how much road operations will be shifted through rails. So we were having a fair idea of around 30% road operations will definitely be shifted through rails because the cost efficiency advantage is near 130 to 150 kilometers of area, will be a huge potential over there.

Viral Shah: Sir, we had instances in the past as well, where we were supposed to make up for in Vapi also and there was some setbacks as well. So what has been the learning and what has been the strategy from our end, so that we don't repeat the same mistakes?

Anish Maheshwari: In past, DPD was the biggest issue for the entire CFS industry and which was something we never had in our mind. So now what we are doing, wherever we are making this kind of ICD or provisions for regions like Vapi, once we see that there is a potential for EXIM as well as domestic market we will be capturing over there also. So now the same thing, which we are rightly prepared for the Morbi – Manawar ICD. Because we learned a lot from the DPD kind of a thing. Now we have ABCD kind of a plan in our mind. If the EXIM business will be hit what we will have to do, then ICD with domestic market if there will be a problem, then what will we be having outstanding with us? So, all things we are having in our mind, and it will be giving us a better opportunity in that market. As the positive thing with us, if today you will ask me, in this situation also our Vapi ICD is doing very good, I can see that. So this is all because of the past learnings.

Moderator: The next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: If I heard you correctly, you are saying you Morbi operations in 2-3 years should resemble Vapi, correct?

Anish Maheshwari: So, I just wanted to tell you, in 18 months we will be in a position to start operations. After that, as, we started operation at Vapi in 2017 for the first year, in this 4 years, we were in a multiple fold at Vapi. So we are having a high hope for Morbi because our assessment of Morbi is going on since last 2 years; 2-2.5 years, probably. So with that sense, from day one to 18 months will be taken for the construction and then after 2 years means from today to the next 4 years, we will be able to be reach the Vapi operations where we are today.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to Mr. Viral Shah for closing comments.

Viral Shah: Thank you everyone for participating in the call. I specially thank the management of Navkar Corporation Limited, Mr. Anish Maheshwari for giving us an opportunity to host the call. Thank you everyone. Thank you sir.

Anish Maheshwari: Thank you so much Viral and thanks from the company's side. I just wanted to give you one highlight over there. June quarter, total loan was around Rs. 479 crores versus on September it was Rs. 575 crores with the cash element with the book of around Rs. 99 crores. Likewise it will go via our cash flow. It is around Rs. 57 crores and we were having the unutilized CC of Rs. 42-43 crores. So almost Rs. 99-100 crores we have cash with the company. And with that, we are making further opportunities with our constructions over there in Vapi, that Manawar ICD. So first thing, which I just wanted to fairly clear over here. So we have enough cash with us for making Morbi ICD over there. And secondly, the repayment which we did in past for next 12 months is also available with us. So from here onwards if we required any kind of Rs. 4-5 crores per month from our cash flow, we will be utilizing over there and with the cash component on our book, which will be suffice for Manawar construction. I just wanted to add it over here.

Moderator: Thank you. On behalf of Yes Securities, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.