“Navkar Corporation Limited Q3 FY-22 Earnings Conference Call”

February 10, 2022

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Moderator: Ladies and gentlemen good day and welcome to the Q3 FY22 Earnings Conference Call of Navkar Corporation hosted by PhillipCapital (India) Private Limited. 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' on your touchtone phone. Please note that this conference is being recorded. This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital. Thank you and over to you sir.

Vikram Suryavanshi: Good afternoon and very warm welcome to everyone. Thank you for being on the call of Navkar Corporation Limited. From the management we are happy to have with us here today Mr. Anish Maheshwari - Chief Financial Officer, Mr. Nitin Sharma – General Manager (Finance) and Mr. Kunal. Before we start question and answer session will have opening comments from the management. I now hand over the conference call to Mr. Anish Maheshwari. Over to you sir.

Anish Maheshwari: Thank you Vikram. Warm welcome to all in the conference call on the Earnings of Navkar Corporation's Third Quarter FY2021. Good morning, very warm welcome. Looking at the figures of results presents; I would like to mention that position of current quarter is almost in the line with the preceding one. The priority of the Company has improved the profitability in line with natural growth of business, volume in current units of Company. The elements of the revenue of Company during the quarter were as follows:

Volume of the import containers handled rose by 8.1% from 26,434 TEUs to 28,583 TEUs on Q-on-Q basis and from 30,622 TEUs on YOY basis, the same is down by 6.7% and volume of exports container handled by again declined by 10.4% from 19,613 TEUs to 17,973 TEUs on Q-o-Q basis and from 14,514 TEUs YOY basis. The same has increased by 21.1%.

In case of CFS/PFT volumes import handled stand at 36,951 TEUs from 29,297 TEUs on Q-o-Q basis which is rised by 26% and from 29,587 TEUs on YOY basis. The same is now up by 24.9% and volume of exports container handled increases by 50% from 18,980 TEUs to 28,469 TEUs on Q-o-Q basis and from 24,412 TEUs on YOY basis, the same as in now increased by 16.6%.

Now train handled stands at similar level of 216 last quarter to 256 at CFS/PFT and from 720 to 711 to ICD/PFT which is also in same line on Q-o-Q basis. Comparing the same with YOY basis, the train handled at 217 CFS/PFT and 717 ICD/PFT which is **(Inaudible) 3.35** by 2.03%.

EXIM turnover rose from 146.42 crores to 159.15 crores on Q-o-Q basis. It is led 8.7% increment. This is a rise of 9.9% from that in the same quarter of last year, 144.77 crores.

Domestic turnover at stands 55.1 in comparison to Rs. 61.47 crores on Q-o-Q basis and the same was 42.07 crores in YOY basis.

Now I just wanted to come along with the profit figures for Quarter 3 for FY2021:

Operating profits for current quarter stands at 77.43 crores in comparison to 71.90 crores in preceding one which saw a hike by 7.7%. EBITDA margins of current quarter stands at 49.33 crores in comparison of 47.19 crores in preceding one which saw the rise of 4.5%, the rise in EBITDA margins belongs to the reasons such, marginal hike in turnover of the Company 215.49 crores in last quarter to 218.5 in current quarter. The depreciation cost of Company increased by 11 lakhs in current quarter as compared in the last one. The reason of same is increased depreciation costs due to the capitalization of assets in last quarter as well as assets adding during the quarter.

Profit before the tax, current quarter at 21.12 crores in comparison to 18.85 crores on Q-o-Q basis and net of 18.05 crores in YOY basis. Profit after tax, Company stands at 12.63 crores in comparison to 11.6 crores on Q-o-Q basis as 13.9 crores on YOY basis. The increase pertaining even the other expenses rose by 20% on account of sales & promotions on occasion of Diwali and bonus elements in the manpower of securities expenses.

Coming to area of new project development:

Continuing at Morbi the Company have received a Letter of Intent, Ministry of Finance in 26th October 2021 for setting up an ICD In-principle approval for construction of Private Freight Terminal, railway siding at Manaba, Maliya, Morbi districts, Gujarat. For this purpose, the Company has acquired land base at locations of further; the construction or facility have been begun and the foundation work is in progress. After getting order to utilize the land for non-agriculture to use. The management in contemplating to complete the terms of LoI by the timeline and meet the ICD operation well before the time. The purpose of the new ICD is to have better connectivity and network to serve the customers better in domestic market also. Management and the opinion that we have facility will be acquired new customers and increase the profitability of the Company.

We also just wanted to be added over here, in Morbi our 30% foundation works had already been completed and our interactions with the customers fraternity is already started over there too. And we got good tractions and interactions, sessions with the customers too. After analysis of all above points, I hereby like to state that the Company's performance is in the growth of revenue was almost at par with slight decline and the same in having corresponding impact on the profitability.

Looking at this Company hopes to sustain the operations and profitability in coming two quarters. Beyond with the profitability is improved and profit is there.

Now will be open the floor for the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rishikesh Oza from RoboCapital.

Rishikesh Oza: My first question is, if you see the realizations have fallen this quarter. So, is there any particular reason for that? What would be our revenue guidance for FY23?

Anish Maheshwari: I had already been told on the call there were operating costs which was a slightly higher than the past quarters and operating cost, I can say that cost for the maintaining the truck drivers and other people will have to be incentivized them till now. So that is a major reason otherwise if you will see our expense is in line with the past quarters.

Rishikesh Oza: What would be our revenue guidance for FY23?

Anish Maheshwari: Revenue guidance I can say that Mumbai CFS in past three-four quarters I'm speaking on the same line. Mumbai CFS is not giving any kind of organic growth and we are not hoping or even to our CFS. Now we are into the development of other line of business in logistics sector itself. Like we are more focusing on the domestic side and we have tried to drive some other models in the domestic markets too. Other than that, we are hoping that by next two or three quarters probably by December we'll try to start operations full-fledged over there in the Saurashtra region. After that I can say the growth for the Company for next couple of quarters will be slightly in an upper side but after the Saurashtra ICD which we have already been commencement has already been, infrastructure development is already been in place over there. We are hoping that in second or third quarter when we started operations there then we'll be getting actual benefit of our ICD over there with the connections of our cross-selling for Bombay, Vapi and Saurashtra region. Till that we just wanted to try to maintain this current EXIM business and we are just tried to make sure that in domestic side we are at, we were just trying to add more and more customers now, whoever is there in the North side and the Gujarat region. With that we are hoping that our revenue growth particularly if you'll say will be in a higher side from current.

Rishikesh Oza: My second question is now from here how and why our margins are going to improve from here now? What would be the key drivers from here?

Anish Maheshwari: Margins if you will ask me, currently our EBITDA margins, if you'll see quarter-on-quarter in an improvement mode. Operating profits are also in an improvement mode. Once we had already been ordered four trains which will be I think so come to us by April or May. Once that four trains will be added in our fleet, then our operating costs also getting down because now we are using the lease trains and efficiency are getting down. From here to if you will ask me for a couple of quarters or for next year that will be in an improvement side.

Rishikesh Oza: You are saying because you'll be adding more trains in May, you said right?

Anish Maheshwari: What happens today, if you will ask me today, we are using 14 trains out of that two owned by the Company and 12 we have already been on a lease or more business which we are getting from the ICD as well as the domestic market, we use our train facility. We are using our PFT, we are using our warehouses for the same. In that context if I'll say you, if you would like to be convert more owning trains then my operational efficiency will be getting improved and cost will be getting down.

Rishikesh Oza: Those four trains will be owned, are you saying?

Anish Maheshwari: Yes, two we have own now and four we have already been ordered, payment also been done around 30% payment already been done. Further I think so by April or May that those trains will be in mode to deliver.

Rishikesh Oza: Any indication how margins will be going up from here? Like any indication on FY23 EBITDA margins?

Anish Maheshwari: If you see my historical EBITDA was in the range of 37% to 40%. In fact, three- four quarters call I had only been told that our first target from here, now our EBITDA margin in the range of 23% to 25%. Our first target from here and a couple of quarters or I can say in next four to five quarters we just wanted to be target 30% of our EBITDA. We are having a **(Inaudible) (13.11)** over there, after the interactions with the customer baseline and the new prepositions which we are getting to establish over there in Saurashtra region and ICD business, if you will see our ICD business is in a growing side and giving us a positive hope. Our first target towards the EBITDA margin to take that EBITDA margin from here to around 30%-32%. That is our base guideline actually.

Rishikesh Oza: You are saying 30%, if I heard correctly? 30% in two to four quarters you are saying?

Anish Maheshwari: Yes, approximately three to four quarters.

Rishikesh Oza: Approximately within three to four quarters, you are targeting 30% and that you are saying this is because the trains you are adding, correct?

Anish Maheshwari: That will because of mix of so many things. Now we are focusing on some more commodities point #1, point #2, the operational efficiency after new trains will be getting include. Third one interactions for our Saurashtra region. In that connection what happens in Gujarat whenever we are going to be Saurashtra then the same parties were having a business out there in the South Gujarat also. With that interactions we are getting that sense, it will be improvement side in next three or four quarters.

Moderator: The next question is from the line of Sanjay Awatramani from Envision Capital.

Sanjay Awatramani: I just wanted a clarity. I mean the previous participant mentioned that you mentioned that you are ordering four trains and two have already been delivered. So, two will be additional which you will get in April and May. Is that understanding correct?

Anish Maheshwari: No, so right away I have 14 trains. Out of that, two is owned by the Company which has already been under operations correct? 12 we are having on a lease model basis and we placed already order I think so 6 months back to Texmaco. So, four trains will be added in our fleet and then the rest, the existing four which is on a lease basis that we will be returning.

Sanjay Awatramani: Basically, the total operations will be 14 itself?

Anish Maheshwari: What will be going to be happen. Today, there is a dependency on the lease model with the other train operators. Once I will be having my own four trains then if I will be having a lease today 12 then that number will be going down my another two, because that four new trains will be operated by me and the operating entire administration of operations will be decided by the Company itself. We will be having a freedom to operate in our own manner otherwise will have some dependency for the lease-based trains.

Sanjay Awatramani: So, you are not planning to increase any trains above 14? The total trains count will be 14, right?

Anish Maheshwari: Right now, not but I can say there is a good traction in the PFT and railway siding side. People just wanted to be shift their business from road to rail. I have so many big clients which we added in our fleet now. Looking at that, near future I can say that 14 trains will be also less for our operations.

Sanjay Awatramani: As per case-per-case basis, if needed there you will…..

Anish Maheshwari: Case to case basis, if required we will be taking while on lease but right now if you will ask me latest by May we'll be having our own six trains.

Sanjay Awatramani: Do we have any CAPEX plan in the coming near future or for next year, any guidance if you can give us?

Anish Maheshwari: I just wanted to give you some highlight on it. CAPEX so as to Saurashtra is already been going on. Financial arrangements already done. Right now, what we did in past quarter one or two quarters we got some good tenures from Axis Capital and Bajaj Finance and Union Bank of India. The tenures were almost around the in between range of 10 to 14 years. What we did, we use our cashflow for the existing repayment as well as the advance repayment of the loan. And that loan which you got new we used for the infra for the ICD. Financial arrangements till now we are on path of the same and we have already been approval from our board of in totality 300 crores. Out of that, we have till now only used 100 crores. Is there any further CAPEX plan beyond the Saurashtra ICD is not there in the mind till now but yes definitely Saurashtra ICD we have already been incurred the CAPEX for loan facilities also.

Sanjay Awatramani: No plans for CAPEX anything over and above the Saurashtra infrastructure?

Anish Maheshwari: Yes. We were at that time if you see, in the last quarter we were taking April for two ICDs one is in Maharashtra and one is in Saurashtra but till now we drop the idea for Maharashtra. We are more focusing on the Saurashtra side because when we start infra building up there then the interactions with the customers, I think so we are more keen over there in the Saurashtra region because there's a huge demand.

Sanjay Awatramani: I think I missed the revenue guidance part if you gave anything for FY23?

Anish Maheshwari: Revenue guidance I can say guidance means there is no such organic growth in the CFS side but we are definitely positive side for the ICD. Till now, our revenue if you will see for this current year is almost in the range of 700 crores and last year-whole year we did around 630 crores. So, for '23 we are hoping that further 10% to 15% jump from the current 2022, for sure.

Sanjay Awatramani: 10% to 15% growth from 700 crores, right? This is what you are expecting?

Anish Maheshwari: Because the core reason behind that is these one or two quarters if you will see, due to the shipping freight and all there were so many operations stuck. And impact was more or less in the last quarter and it will more be in a same quarter but from April onwards that this whole issue will be getting down. We are hoping that from here onwards, next year definitely our profitability last year 630 was my turnover. You see we are already having a turn of around 700 crores and more one quarter is still with me. We will be in range of reaching sum of around (+900) crores.

Sanjay Awatramani: FY23, right? FY23 this will be?

Anish Maheshwari: Current year if you will see. March '22 number maybe in the range of almost in the 850 to 900 crores. Next year further we are having a high hope for 10% to 15% increment in the revenue side.

Sanjay Awatramani: Just to be clear on this side. 700 crores is for full year FY22 or more than that? Is this understanding correct?

Anish Maheshwari: No. If you see in last three quarters, my total turnover is in the range of we have already been 653. So, if I will add 200 more from the current quarter, it will be in the range of 850 crores. From further I am assuming that if my Saurashtra ICD will be up and running by the third quarter of this year. Because what we did in past, wherever we made the ICD or CFS, we just took the notification for the area which we developed as soon as possible. There is a development of around 75 acres of land out of which if I will be having a development, I did the development of 20 acres, then we will go for the notification. That process we will start by second quarter of next year and by third quarter we will be start commencement of operations. With that hope if I'll be at 10% more from the Saurashtra, with the existing one so we'll be getting additional business from Saurashtra ICD. If I will be assuming, if there is no organic growth from the Vapi or the Mumbai CFS, then also I will be at 10% more minimum. This is our high hopes from the existing marketing team, getting sense from them too.

Sanjay Awatramani: I would say if we are expecting around 800 to 850 crores this year for FY22, we'll add 10% to 15% more for next year?

Anish Maheshwari: Next year we will be in the range of 925 to 950 crores. That is our target production.

Moderator: The next question is from the line of Prateek Kumar from Antique Stock Broking.

Prateek Kumar: My first question is on your CAPEX. So, what is the CAPEX expected for FY22 and then for FY23?

Anish Maheshwari: FY22 if you will ask me, there is no CAPEX. We are having a fresh new CAPEX for Morbi ICD only. Till now we had already been spent over there almost in the range of 65 crores to 70 crores. Further we are targeting that next year Rs. 100 crores will be added. But meanwhile my 31st March 2022 loan book was in the range of 495 crores which is now 530 crores till now. Out of which we have a cash in book almost in the range of 35-36 crores. For this whole year whatever CAPEX we did, we are in the same range which was in the 31st March of 2021. Now onwards there may be a further CAPEX of hardly a value of 100-130 crores.

Prateek Kumar: So, this year CAPEX would be 70 crores which is done so 100 crores this year, next year also 100 crores. This is the right estimate?

Anish Maheshwari: Yes, exactly. Prateek you will see we are still having an advance EMI payment of 83 crores. Eventually, if you will ask me in totality if I have a loan book of 530 minus 35, the 495 crores plus I will add further 130 crores, it will be in the range of 625 crores out of which 85 is already advanced payment to the bank. Almost that level will be in the range of 540 to 550 crores.

Prateek Kumar: What is total project CAPEX which is related to Morbi expansion?

Anish Maheshwari: Total CAPEX for Morbi is approximately if I will be including the land, in the range of 180 to 200 crores.

Prateek Kumar: When we say that we are looking to complete this expansion by 3Q FY23 so the whole of this 200 crores will be incurred or some of it will go to next year?

Anish Maheshwari: Further next year. Some of will be definitely going further next year to you because railway PFT and the railway siding operations will be we are targeting start by third quarter of next year. Once the railway PFT will be getting start then we will be getting another notification further which for the further development. It will be taking another two or three quarters. That entire planning of 130 crores new CAPEX will take from February 2022 to another 1.5 years in totality. It may be in the range of June 2023, I can say.

Prateek Kumar: Aren't we targeting very aggressive timelines because I think this Vapi ICD also was aggressively targeted in terms of time lines. It got also significantly delayed, I mean quarter-after-quarter. We only recently started working on this project and we are not targeting 3Q FY22 or 23.

Anish Maheshwari: Vapi operations was started very soon. Whenever that's why I'm telling you, we are targeting the base or starting the operations. Vapi delay was in the railway siding side due to the DFCC was the major ditch because they were also not having a plan to DFCC Corridors from where the railway lines will be getting now or lay down. So, that was the reason we further delays for three or four quarters. But here if I would like to start operations via my road operations; Vapi also we started road operations also, before we are commencing the railway. Railway was delayed due to certain reasons but I can say guidelines towards, that's why I'm giving the conservative guideline of 10% increment on this business in 4 months. That may be possibilities of further delay in the railway sidings too. But for the starting of the operations over there in an ICD Manaba will not be a hitch because I have nine-months from here to take the approval from the customs or notification. Once I will be ready with the 20 to 25 acres of the area we'll go for the notification which we did in the past also. There is a long past history wherever we have a short area; minimum requirement is 10 acres. Above 10 acres, I can go for the notification. So once notifications will be done then I can start the operations. You are very well correct. I really connect with your words also because our railway siding was getting almost four to five quarters delay. There may also possibilities but I can say there were two different things. If I just wanted to be added over here. In ICD Vapi we have two major hitches. One was the feeder line from my premise to the next railway station. It was the further delay, point #1 due to the DFCC Map. In Manaba, where we are making new ICD, feeder line is hardly on a 50 meters distance which is same like Bombay CFS. We are hoping that we are assuming that there will may not be an issue for the railway siding also. But yes, I have a past history of delay in railway siding I have to be agree with you.

Prateek Kumar: On volume growth this particular quarter we see some difference in mix. Like our Mumbai volumes did very well while Vapi was stagnant quarter-on-quarter. Any specific reasons there?

Anish Maheshwari: Mumbai were this quarter the volumes were little bit on a higher side which we told you in past also. In CFS there may be not an organic growth but there may be plus-minus. Sometimes it will be giving me addition of 5% to 10%, sometime it will be on a same range. That is just because of a port activity. There's no such other reasons like we have added some other clients or not.

Prateek Kumar: I think this is first time we have seen some kind of reversal in Panvel volumes?

Anish Maheshwari: You are correct. After a long time, there is a positive growth in a CFS-EXIM business and reason behind that is again our expertise in exports, if you'll see my export operations increased by 50% from Q-o-Q basis. So, practically the exports which was not done in past three or two quarters due to the shipping freight and so many reasons, delay in vessels hence there is so many reasons which was remain in this quarter which will remain seen for next couple of quarters.

Prateek Kumar: One last question on your other expense. You mentioned something on why it has increased? Can you repeat that number?

Anish Maheshwari: Prateek what happens if you see my numbers, my cost to indirect expense which will be in a earning side, there were two or three components. Last quarter was the bonus and Diwali quarters. In this quarter there may be certain expense towards the incrementation side and towards the employment cost, point #1. Point #2, to retain the existing levers and truck drivers will have to give them incentives which is not going to get direct systems which will be a short term of escalation kind of a thing. That was there due to that our expenses were getting upper side.

Moderator: The next question is from the line of Vikram Suryavanshi from PhillipCapital.

Vikram Suryavanshi: Regarding the volume from this new ICD particularly this Morbi, what kind of volume we can do or expect in initially 1 or 2 years. And as you said that will start operation with the road side first and once we ready with the PFT we'll move for the rail. One, I'm looking is that volume guidance outlook for this Morbi ICD and what would be the cost difference for road versus rail for Morbi to port?

Anish Maheshwari: Vikram ji, this is very early to comment on it because there is the volume our EXIM target of if you will we see, we have some data. I will share with you separately because we have some kind of a data which we are getting since there is a volume in that region almost in the range of 10 lakhs containers per annum which is more or less from the Hazira, Pipavav and Mundra port. Some kind of a cargo which is coming from JNPT port also. So, market is there. There's no problem but if you'll see my ICD operations over there in the Vapi when we started, first year we did 17,000 containers in 4 months. Almost in the range of 3000 to 4000 containers we were targeting over there. Target was 10,000 containers which we reached in second year itself. Second year we did almost in the range of full operational year with railway was the year where we have a volume of almost 1.5 lakh TEUs in a very first year. It is all depends the growth of their cargo and the operational efficiency which will provide to their customers and the cost benefits which will have to be passed on to the customer. Based on that we will be arrive the same number. So, if you'll ask me today this is really very early to comment on it but yes, I can say you that there is really a good traction from the customer side. People are really wanting ICD over there. People are really wanting domestic market operations to some sort of a railway siding over there. I will share the letter from which was issued by the Rajkot and the Saurashtra region ICD. That Industrial Commerce of Chambers they were recommended to the Railway and the Government of India ICD to that for IMC that there is a need of that kind of ICD for the domestic as well as a PFT operations. I can say there have been so many big business houses they need because Morbi is a tile hub. There is no these kinds of rail facility. We go there and ask to the people they also give us the sense because nobody having a thought of that, there may be operational efficiency by the railway because the problem is what in that particular region, there is no raw material kind of a thing they were having over there. They will have to be dependency for the raw material which is for the tiles and all which comes from the North and the coal and other things which they required for the making those kinds of ceramics and all, they took from the South side. There is a need which we have already been evaluated and LoI if you see they definitely looking at that there is a need. Till now we have a sense there is a market, there is a business, our marketing team is regularly going there. They are getting good sense, we are targeting. First year will be in a same line of business where we did in the past Vapi. At least 2000 to 3000 containers in per month would like to be delivered over there.

Vikram Suryavanshi: Our capacity if I am not wrong is around 2 lakh TEUs?

Anish Maheshwari: Yes, 2 lakh TEUs

Vikram Suryavanshi: But I think given the tile and all that, railway will be much more advantage as and when it is ready?

Anish Maheshwari: Definitely.

Moderator: The next question is from the line of Sudarshan, an individual investor.

Sudarshan: One is regarding the MAT credit. Currently the total tax is about 40%. So, we are in the 5th year so is there is any scope for the MAT credit or going for the tax model without any **(Inaudible)** (37.16). So in that case what would be the net tax percentage? It will be reduced from 40 to 30, significantly based we apply the MAT credit.

Anish Maheshwari: In last quarter also we told the same thing and we will be decide based on that this quarter's numbers. If fourth quarter number within the same line we will have to evaluate, will move for the MAT credit or not. I will definitely give you the guideline in the next quarter. We will definitely getting the same. Once the fourth quarter number will be arrived then after we will decide that we will be go for MAT credit this year or not.

Sudarshan: Carving out from the 15 years **(Inaudible)** (38.05) so this is the year that we need to make the decision either we go for MAT credit or we will go for some other model, right? So, this year you would be taking that decision, correct?

Anish Maheshwari: Yes definitely but we that's why I am telling you, after fourth quarter number will be decide that. Either will have to go for MAT this year or we will have to apply from next year.

Sudarshan: In either way the tax rate could be reduced from 40% to whatever may be the number, right?

Anish Maheshwari: Yes.

Moderator: The next question is from the line of Rishikesh Oza from RoboCapital.

Rishikesh Oza: Just wanted to press on margins. Would it be fair to say you know that now going ahead in future quarters, EBITDA margins should be trending up and our near-term we should be going towards you know 26% kind of EBITDA margin?

Anish Maheshwari: Our base target that you will see from last two or three quarters I'm saying the same thing. Our first target is 30%, above 30% each over there EBITDA. That may definitely take some time but our target is 30%. It might possible it will be in a range of 25%-26%-27% a couple of quarters.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments. Over to you.

Anish Maheshwari: Thank you so much everyone on the call. Thank you so much to the PhillipCapital and all the best to everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of PhillipCapital (India) Private Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.