M/s Navkar Corporation Ltd
Container Freight Stations & Rail Terminals

Ref: NCL/CS/2020-21/06

Date: June 13, 2020

To,
The Manager
Listing Department
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001
Script Code: 539332

To,
The Manager
Listing Department
National Stock Exchange of India Limited,
Plot No. C-1, G – Block,
Bandra Kurla Complex,
Mumbai – 400051
Script Code: NAVKARCORP

Dear Sir / Madam,

Sub : Intimation Of Credit Rating

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that India Ratings and Research (Ind-Ra) has assigned its rating as under:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Rate	Size of Issue (Million)	Rating/Outlook	Rating Action
Term Loan	-	-	FY 30	INR2679.9 (reduced from INR3,060)	IND A - / Stable	Downgraded
Cash credit facilities	-	-	-	INR 300	IND A-/Stable/IND A2+	Downgraded
Non-fund-based limits	-	-	-	INR 100	IND A2+	Assigned
Proposed term loan*	-	-	-	INR 840.1	Provisional IND A-/Stable	Assigned

Copy of the Report is attached herewith.

Request you to take the same on your records and acknowledge.

Yours faithfully,
For Navkar Corporation Limited

Navkar Corporation Ltd.

Deepa Gehani
Company Secretary
Encl: As above

India Ratings Downgrades Navkar Corporation to 'IND A-'/Stable; Rates Additional Loans

Ind-Ra-Mumbai – 12 June 2020: India Ratings and Research (Ind-Ra) has downgraded Navkar Corporation Limited's (NCL) Long-Term Issuer Rating to 'IND A-' from 'IND A'. The Outlook is Stable. The instrument-wise rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	FY30	INR2679.9 (reduced from INR3,060)	IND A-/Stable	Downgraded
Cash credit facilities	-	-	-	INR300	IND A-/Stable/IND A2+	Downgraded
Non-fund-based limits	-	-	-	INR100	IND A2+	Assigned
Proposed term loan*	-	-	-	INR840.1	Provisional IND A-/Stable	Assigned

*The ratings are provisional and shall be confirmed upon the sanction and execution of loan /transaction documents for the above instruments to the satisfaction of Ind-Ra.

The downgrade reflects NCL's higher than the agency-anticipated net leverage (net debt/EBITDA) in FY20 and the agency's expectations of a further decline in the operating profitability and consequently net leverage in FY21. Furthermore, the company's liquidity profile remains stretched amid high working capital utilisation and estimated low unencumbered cash balance as at FYE20.

KEY RATING DRIVERS

Credit Metrics to Witness Deterioration in FY21: Ind-Ra estimates NCL's FY20 net leverage (including promoter loans) to have remained at around 3.0x (FY19: 3.2x; FY18: 2.3x), higher than Ind-Ra's expectations, due to higher-than-expected debt availed for funding the capex of about INR1 billion incurred towards the purchase of two rakes, fleet, container train operations license and other railway-related operations. The agency also estimates NCL's gross interest coverage (EBITDA/gross interest expenses) to have marginally declined to around 3.2x in FY20 (FY19: 3.4x; FY18: 9.2x) due to an increase in interest expenses. The company's overall debt is estimated to have increased to about INR5.33 billion as at FYE20 (FYE20: INR4.96 billion). Of the overall debt as on 31 March 2020, promoter loan accounted for about 18% of the overall debt as at FYE20. Promoters have extended funds in the form of unsecured loans and preferences shares and the same remain subordinated to the bank loans. The agency estimates the company's net leverage (excluding promoter loans) to have stood at 2.5x in FY20 (FY19: 2.7x). The company's return on capital employed stood low at about 6% in FY20.

Ind-Ra expects NCL's credit metrics to weaken in FY21, given the challenging operating conditions leading to lower profitability. The agency projects net leverage to deteriorate to around 4.2x in FY21.

In FY19, NCL's credit metrics deteriorated due to lower profitability and an increase in interest expenses amid a higher debt. Over FY16-FY19, NCL's free cash flow trend has been negative given substantial capex incurred for Somathane Container Freight Station (CFS) expansion and the Vapi (Gujarat) facility.

Weaker Operating Performance Expected in FY21: Amid the COVID-19 led lockdown, trade volumes at Jawaharlal Nehru Port Trust (JNPT; where NCL has a CFS unit) declined 37% yoy in April 2020 and are likely to remain weak, especially in 1HFY21. This, the agency believes, is likely to impact NCL's operating performance in FY21 and coupled with the recent sharp increase in fuel cost, could have an impact on the company's EBITDA margin. A lower-than-expected operating performance amid a delay in recovery of the trade volumes or an increase in operating cost shall remain a key rating sensitivity.

For FY20, Ind-Ra estimates revenue from operations to have grown 13% yoy, primarily led by growth in volumes handled and a marginal increase in average realisation. The overall volume growth is expected to have been primarily driven by the strong growth in volumes at its inland container depot (ICD) unit in Vapi despite the decline in volumes handled at Mumbai CFS, given the high competitive intensity and direct port delivery scheme. During 9MFY20, revenue from operations increased 17% yoy to INR4,112 million, supported by substantial growth of over 60% in the volumes handled at the Vapi unit while the CFS unit witnessed a decline of 5% in its volumes handled. EBITDA margin in 9MFY20 declined to 31.5% (9MFY19: 32.5%) due to an increase in direct expenses.

In FY19, NCL's revenue from operations grew 30% yoy to INR4,826 million while EBITDA margin contracted to 31.6% (FY18: 38.9%) due to an increase in railway charges. The company has a moderate customer concentration with a single customer contributing about 12% to its revenue.

Established Position at JNPT: NCL operates one of the largest CFSs at JNPT and is estimated to have had a market share of about 5.5% in FY20. While the high competitive intensity amid the direct port delivery scheme has led to a decline in the company's market share over the three years through FY20, the company continues to remain one of the major CFS operators at JNPT. This is supported by its key competitive strength of handling a diverse mix of cargo (hazardous, agro and reefer), its own railway siding, optimal EXIM cargo mix, strategic location (proximity to highways) and a private freight terminal.

Strong Ramp-up of Volumes at Vapi Facility: In FY17, NCL commissioned an ICD and logistics park facility in Vapi with a capacity of 473,800 twenty-foot equivalent units and has gradually scaled up its operations during the last three years. The company operates container trains for the movement of cargo from JNPT to Mumbai CFS and to Vapi with the rake fleet of eight trains. The company has significantly increased its container train operations in the last one year, which has supported the volume levels. Volume handled at Vapi facility has grown at a CAGR of 125% over the three years through FY20 and has enabled the company to diversify its service offerings. The location of the Vapi facility remains favourable as it enables the company to target container volumes moving to south Gujarat and thereby enhance its competitiveness in the Gujarat container market.

Liquidity Indicator - Adequate: NCL had estimated unencumbered cash and bank balances of INR6 million as on 31 March 2020 and average working capital utilisation of about 97% in the 12 months ended March 2020. NCL has refinanced its term loan with an elongated tenure, which the agency believes supports its liquidity profile. While NCL has a scheduled repayment of about INR0.7 billion in FY21, the actual repayment is likely to be lower, given NCL has availed of the Reserve Bank of India's loan moratorium. The agency believes the company's cash flows are likely to remain adequate for the repayment of the term loan with a lower requirement for refinancing, Additionally, Ind-Ra draws comfort from the promoter support extended to the company in the past and believes the company will continue to access need-based funding support in case of any exigencies.

High Competitive Intensity and Regulatory Risks: NCL faces intense competition from other CFS operators at JNPT. Furthermore, the volume growth of the company is linked to EXIM growth, which is dependent on the macro-economic situation. Any material slowdown in EXIM volumes can have a negative impact on NCL's throughput. Additionally, changes in regulations can have a material impact on NCL's operations such as an increase in direct port delivery volumes at JNPT may impact NCL's volumes and/or profitability.

RATING SENSITIVITIES

Positive: Developments that could individually or collectively, lead to positive rating action include:

- increased visibility on the recovery of revenue and profitability leading to higher visibility on the net leverage (including promoter loans) reducing below 2.5x on sustained basis
- An improvement in the profitability coupled with healthy working capital management thereby leading to an improvement in the liquidity profile and also ensuring maintenance of adequate liquidity buffer

Negative: Developments that could individually or collectively, lead to negative rating action include:
- visibility on the net leverage (including promoter loans) sustaining above 3x FY22 onwards
- a decline in the operating profitability and thereby cash generation from the business and elongation of working capital cycle resulting in continued pressure in liquidity
- higher-than-expected debt funded capex or substantial increase in gross debt leading to deterioration in the credit metrics on a sustained basis

RATING CRITERIA

'Corporate Rating Methodology', dated 20 April 2020, is available at www.indiaratings.co.in.

COMPANY PROFILE

NCL operates a 560,000 twenty-foot equivalent unit CFS at JNPT. The company also has an ICD, warehousing facilities and a logistics park in Vapi (Gujarat). NCL has dedicated railway sidings at both JNPT and Vapi locations, connecting both the facilities to main railway lines. The company is promoted by Shantilal Jayavantraj Mehta and Nemichand Jayavantraj Mehta who have several years of experience in the container freight business.

As per provisional results, during 9MFY20, NCL reported EBITDA and PAT of INR1,295.2 million and INR366.0 million, respectively, on a revenue of INR4,112.4 million.

FINANCIAL SUMMARY

Parameters	FY19	FY18
Revenue (INR million)	4,825.8	4,281.7
EBITDA (INR million)	1526.0	1665.2
EBITDA margin (%)	31.6	38.9
Interest coverage (x)	3.38	9.17
Net leverage (x)	3.23	2.33
Source: NCL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating/Outlook	14 March 2019
Issuer Rating	Long-term	-	IND A-/Stable	IND A/Stable
Term loan	Long-term	INR3,520	IND A-/Stable	IND A/Stable
Cash credit facilities	Long/short-term	INR300	IND A-/Stable/IND A2+	IND A/Stable/IND A1
Non-fund based limits	Short-term	INR100	IND A2+	-

COMPLEXITY LEVEL OF THE INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact:
Primary Analyst
Rabin Bihani
Senior Analyst
+91 22 4035 6170
India Ratings and Research Private Limited
Wockhardt Towers, 4th Floor, West Wing
Bandra Kurla Complex, Bandra East
Mumbai 400051

Secondary Analyst
Abhishek Nigam
Associate Director
+91 22 40356194

Committee Chairperson
Mahaveer Shankarlal
Director
+91 80 4666 6817

Media Relations: Ankur Dahiya, Mumbai, Tel: +91 22 4035 6121, Email: ankur.dahiya@indiaratings.co.in.

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, and structured finance and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.