"Navkar Corporation Limited Q3 FY-23 Earnings Conference Call"

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MODERATOR: **MS. DEEPIKA BHANDARI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY23 Earnings Conference Call of Navkar Corporation Limited hosted by PhillipCapital (India) Private Limited.

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I now hand the conference over to Ms. Deepika Bhandari – PhillipCapital (India) Private Limited. Thank you and over to you Ma'am.

Deepika Bhandari: Good morning and a 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 – CFO, Mr. Nitin Sharma – General Manager (Finance). Mr. Ankit Thakkar – Senior Manager, Ms. Deepa Gehani – Company Secretary and Ms. Antima Surana.

Now I shall hand over the conference call to Mr. Anish Maheshwari, the CFO of Navkar Corporation Limited for opening comments and then we shall continue with question-and-answer session. Over to you sir.

Anish Maheshwari: Good afternoon and very warm welcome to everyone present on the call.

I would like to give insights on the results of the current quarter after the changes involved in the finances of Company after slump sale of 'Tumb' ICD business in last quarter. Here I am highlighting the details about the continuous operations of the Company followed by a glimpse of the turnover and the profits of discontinued business for the quarter.

Coming to the total revenue figures of this quarter:

The same as Rs. 121.79 crores for this quarter as compared to 109.92 crores last quarter. This total income includes exceptional income which is related to sale of trailers to Adani and others, partly remains of 19.06 crore in this quarter. On these revenue figures, the profit after tax of Company's this quarter stand at 42.3 crores in comparison to Rs 23.1 crores in last one. This is mainly because of reversal of deferred tax liability on account of sales of assets in slump sale along with the separate agreements with the Adani Logistics for sale of 615 trailers and 90 dwarf containers and for sale of 230 trailers to other parties. When coming to profit before tax the same is Rs. 21.6 crores as compared to 18.5 crores in the previous quarter.

Going at I just wanted to give the elements of revenue of Company during the quarter are as follows; in case of CSF/PFT volume of exports container handled stands at 25,639 TEUs from 24,401 TEUs on QOQ basis, which is rise by 5% and from 28,469 TEUs on a YOY basis. The same is now down by 9.9%. The volume of import containers handled raised by 12.9 from 26,461 TEUs to 29,869 TEUs on a QOQ basis and from 36,951 TEUs on a YOY basis. The same is now done by 19.2%.

Coming to the EXIM turnover:

The same is up by 14.7% from 57.0 crores to 65.45 crores. The domestic turnover for this quarter is 17.54 crores. In case of CFS/PFT, the number of trains handled is 193 in this quarter compared to 197 in the last one. In case of CFS/PFT which is discounted operations, we have only domestic turnover. From this quarter onwards this business was not transferred to the slump sale. The domestic turnover of ICD/PFT this quarter stands at 13.1 crores compared to 39.96 crores. The reason behind is that ArcelorMittal business, which was going down because of railway levy imposed by 15% in last quarter itself. The road has become a better option compared to rail.

I would like to focus on light upon the fulfillment of the objective of the Company slump sale:

As presented earlier, the primary object for the slump sale proceeds was to pay off the existing debt of the Company. In response to this, the Company has repaid all its secured loans from bank or financial institutions and has got debt-free status. After payment of all this debts the extra fund laying in form of fixed deposits in hands of Company as of 31st, December is value of 172 crores approximately.

Now I want to highlight the profit figures of Quarter 2 FY22-23:

Operating profits of the containers business for this quarter stand at Rs. 34.36 crores as compared to 41.55 crores. But when we compare the same with turnover, the operating margins of the current quarter is 35% compared to 37% in the last quarter and the operating profit margins are not deviated significantly. The profit before tax, the exceptional gain comes 2.55 crores as compared to 18.53 crores QOQ basis.

The impact of profit due to the following factors:

The common cost which was bear by the Company earlier. I just wanted to be highlighted there. The employee cost of the business shown as more by Company recently enhanced by employee costs rose by 4.6 crores to 8.59 crores. Also, this figure Rs. 1.66 crores related to the manpower expense and provisions of Morbi which will be expensed out of as per-IndAS. The depreciation cost has rose from 6.36 crores to 7.38 crores instead of declining because of the depreciation impact of remaining assets of the unit sold in slump sale. The finance cost appears to have risen the quarter in comparison to the last quarter from 4.61 crores to 586 crores. This appears because of finance cost is not apportioned in the quarter between continuing and non-containing business and the whole impact is on the continuing operations only. Further out of 1.8 crores in the notional impact of IndAS cost which is reversed on account of repayment of loans. Also, the prepayment and foreclosure charges hit of Rs. 1.7 crores within this quarter. So over all there was a 3.5 crores impact on these numbers. The other expense has also risen by a license fee and charges for ICD Valvada being charged to continuing operations. The total hit of 2 crores is on account of that. Apart from this, 1.91 crores of security manpower expense have been incurred for the October month at ICD locations for smooth transactions, which is going to be discontinued for further future. EBITDA margins has fallen for 28.85 crores to 12.44 crores. The same belongs to a higher employee costs attributed to the continued business and the professional fee in form of license fee and lease charges as mentioned above. Other than that, the advisory and other expense which we incur by the Company for the slump sale deal. Also, the reason of fall of revenue operations from 109.26 crores to 99.38 crores contributed to this. And the performance in the current quarter stands at par as per revenue side and when the same comes to the profit side, the decline is because of lack of synergies impacted on the account running both of operations together. The region which we have started earlier.

Continue to area of new projects development continuing at Morbi, the current completion stage of the aforesaid project is almost completed and the revenue has started from February first week of current year. Management is on the opinion that the new facility will help to acquire new customers and increase the profitability of the Company near future. Once the operations start full-fledged the same is to give the synergies impact to the Company as a whole and overall profitability would rise. After analysis of the above points, I here like to state that the Company's performance in this quarter after a slump sales quarter tends to set the field for growth in revenues as well as profit in the upcoming period.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Ravi Kumar Bucha from Knightright Fabs India Pvt. Ltd.

Ravi Kumar Bucha: This is Ravi Butcher. I'm an individual shareholder in your Company. I would like to ask like you have 177 crores in your bank and you said you are in discussion with the management and you'll come out with some plan of rewarding the shareholders. Any plans on dividend or buyback on this because we are already in the month of February now?

Anish Maheshwari: I can tell you we are now completing our Morbi facility first because it's almost on operational side. We just wait for the couple of quarters. Once everything will be done, like operations will be in a smoother mode and secondly railways will be in place, railway orders already been placed. I think it may come in next one or two months. Then after we'll definitely think on it and get back to the market.

Ravi Kumar Bucha: I would like to ask one more thing. What is the kind of revenues you are expecting from Morbi operations on a quarter-on-quarter basis? Can you just enlighten me on that like what kind of revenues are expected?

Anish Maheshwari: We started our operations from 1st of February and we are hoping that it will be in a smoother site till March. Then first quarter operations of 2023-24, I can say in the position where we can be given the right positioning over there in a Morbi market once we are getting the sense of that particular thing after a couple of months.

Ravi Kumar Bucha: Any figures what you can put after in the Q1 of next year?

Anish Maheshwari: There we have projected that we have a facility of almost 4 lakh containers volumes handling capabilities of our entire facility. Against that there is a market of around—earlier we also discussed there is a—good market over there. The first 2 months will be tough for us to get that business and understanding towards the market strategies and customer requirements side. Then only will be in a shape to there we can tell how we'll be moving further for the customer solutions and what will be the fair sense for the container handling capabilities over there in the next couple of quarters.

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

Ganesh Shetty: In continuation with the last investor's question, in the last investor call, the management has promised to go for buyback or dividend as soon as possible once the debt is clear. Now the debt is clear and we have a very handsome amount in the account also, Company's account. It is very prudent from the management's point of view to declare some dividend at least for the shareholders. Now as you see the investor interest is going down and down in Navkar Corporation and in spite of such a huge deal the management is not giving any dividend or any rewards to the minority shareholders. The market cap of the Company is going to go down. It is a better interest of the Company and corporate governance so as an investor I request you to consider this proposal very humbly and see that the Company's corporate governance is also enhanced. Thank you very much and all the best.

Anish Maheshwari: So, I really appreciate your words and I can tell you that we are in verse of starting our Morbi operations first. Secondly just for your information, Company has started, promoter has started acquiring their shares in term of creeping acquisitions earlier also and they are planning to start some more optional things towards how we will be adding the value for the shareholders and on that we will definitely get back to the market once we will be making some static plan for the shareholders, till now I can tell you that we have in our mind, last quarter also we told the same thing, we are having in our mind once our Morbi operations will be in shape and secondly creeping has already been started in the last 1 or 2 months to add the value for shareholders and some further options will be definitely think on it and get back to the market and I really appreciate your point too. We are definitely thinking on the same thing for how we'll have to be valued and add the values for the shareholders.

Ganesh Shetty: My second request is as we are doing very well at we are in the sunrise industry of logistics.

Anish Maheshwari: I really consider your request; don't worry I'll talk to management on this.

Ganesh Shetty: I just want to have a suggestion that we should have a more communication with institutional investors on a regular basis and showcase our capabilities and our strength and our balance sheet, all these things to be bought to the notice of the major shareholders or institutional shareholders so that the interest in the stock or interest in the Company will enhance and overall will be a beneficial to each and every shareholder of the Company. Thank you very much.

Anish Maheshwari: Basically, I just wanted to revert on it, for this quarter I might say that for next quarter also, the common expense for the Company remains same or remain continued because our Morbi operations will take shape in next couple of quarters. So, I don't want to enhance the other costs for the Company. Till now, the common expenses which is bear by the Company seeing that, I can tell you, we'll definitely think on it. We'll go to the market and give the sense about our further operations towards the domestic as well as the Bombay operations and the Morbi ones will be shape then definitely going to the market and give our presentations with the numbers.

Moderator: We have the next question from the line of Vikram from PhillipCapital. Please go ahead. Go ahead Vikram. I'll read out the question for him. The question is how is the outlook on growth in domestic business going forward? This is the first question.

Anish Maheshwari: So basically, on a domestic front we are more taking more options on the heavy asset side like steel. Steel we are already doing on a domestic business. Now we are thinking on a cement business also which I had already been told to the market last time also. We are taking static decisions on the domestic market. For he earlier we do only agro and steel, now we are more focusing the heavy commodities also. With that strategy once we will be come up with entire facility of Morbi with all railways will be on place and as we have a category even license so will definitely think on it. Major concentration will be on a heavy commodity right now. So, this is our strategy for the next couple of quarters, I can say three-four quarters.

Moderator: The next question is EXIM volume growth outlook?

Anish Maheshwari: EXIM, the Bombay will remain same, remain continue. I think they may be slightly dip or slightly higher side might be 5% but I can say but domestic is our more focus and Morbi which is new. Once Morbi will come in then after we will get fair sense for the Mumbai operations also with the cross sells business. I can say right now Morbi will be giving new shape to the Company firstly and secondly once the Morbi will commence fully or in a manner of good operations side over there in Morbi then it will definitely give us a positive for Mumbai also or for EXIM as well as the domestic market too.

Moderator: We have the next follow up question from the line of Ravi Kumar Bucha from Knitright Fabs India Pvt. Ltd.

Ravi Kumar Bucha: What is the status on this steel thing which you are doing on the domestic operations with Mittal which was hampered because of the export duty imposed by the government?

Anish Maheshwari: So, it will be in shape that's why we are thinking on another commodities for the heavy commodity which I told. Steel will remain continue because till now also businesses will remain continue but it's in a shape which was earlier 40 crores around 14 crores which might take shape after all these things will be, steel prices will be going up and it might take because costs should be the matter. That's why we are thinking on different commodities now, on agro as well as other commodities. It might take shape in the next couple of quarters.

Moderator: We have the next question from the line of Navin, an individual investor.

Navin: I would like to understand why the employee expenses have been increased. It has been doubled from Quarter 3 FY22 to in FY22?

Anish Maheshwari: The reason behind that is our discontinued operations of Vapi where we have an employee cost, it will be segregated that, that will be again same for the Mumbai but common cost for the employment which is not getting down yet. All employees which is on the role of Company like I can tell you that the senior management team, or LE team which was having a 50% of cost for employment. They have remained the same with the organization yet and we are giving them other work for Morbi and all. Till now that will be common expense will remain same so that's the reason employee cost as stand over there.

Navin: With regards to Morbi which is going to get activated from this January, I would like to understand what would be the expenses which would be coming in? You may need to buy trucks and everything correct, to scale up the business. What would be the impact for that?

Anish Maheshwari: We have already been added asset till now is around 80 crores in which we have 100 tillers which we added then which I told you for the domestic operations we are going for the heavy commodities. Cement containers also we added to the fleet where we have spent till now around 17 crores. Then we added around 6 **(Inaudible) 21.10** to the operations for Morbi. This has already been so the FD which I told you right now which after the asset which added to the Company after that, that amount had come to the in totality.

Navin: No, I didn't understand the rationale. When you sold it off earlier, when selling it off to Adani, what was the need? You could have leveraged that existing infra whatever was there in terms of vehicles and everything here, right? Why a net new investment would have been required?

Anish Maheshwari: What happens is that fleet which was, we earlier if you have our last call details with you, so earlier we told that we'll be going to make the operations for the Adani for Vapi facility. Then they told they will handle the operations by their own. That's why we sold it to them. We have to take new fleets over there at Morbi. Otherwise, any which ways if Morbi operations will be in a shape then we'll have to take other fleet of another fleet over there. These fleet which we sold to the Adani which was remain continue for the Adani itself in a lease model also.

Navin: And subsequently in the last conference call also you said that you're going to share the profits with the investors. Is there any dividend plan for this sell off what we have done?

Anish Maheshwari: We have already been started gripping acquisitions in account of promoters for raising the value for shareholders and now dividend will definitely plan for.

Moderator: The next question is from the line of Aditya Sen from Robo Capital.

Aditya Sen: This is another Morbi question. What is the total amount of CAPEX that we have done in Morbi and do we expect to do more CAPEX in the same?

Anish Maheshwari: Till now we have around 190 crores approximately we did at Morbi including our fleet and all. Project side we have spent around 140 crores and that is for the fleet. From here gradually our operations will be in an improvement side then we'll have to think again on it. If you'll ask me for next couple of quarters, I think so there is no further expansion or no further asset addition in the fleet.

Aditya Sen: Do we expect any other CAPEX in the overall business for the next 2-3 years?

Anish Maheshwari: Next 2 to 3 years it will be challenging to meet right now because once our operations will be in a full-fledged manner over there at Morbi then we'll have to think on it. Because if there is a cross-sell business will be on a higher side then we'll have to think on the further CAPEX towards both the facility. Otherwise, there is capability wise if you will ask me, there is no need further CAPEX for the installation or the project side there might be need for the further fleet addition itself.

Aditya Sen: Any guidance on the depreciation run rate for FY24?

Anish Maheshwari: Depreciation run rate will remain same because after Morbi commencement there may be a depreciation on fleet only because maximum portion for the CAPEX is for the land-and-land development. There is a depreciation, it will ask me for the fleet addition only otherwise the depreciation will remain same.

Aditya Sen: The last one, any guidance on the revenue and EBITDA for next year FY24?

Anish Maheshwari: We are now on a very lower side till now. From here onwards we are expecting growth of around 15% to 20% addition of Morbi for next year.

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

Rahul: I just wanted to know what would be the revenue guidance for the next 3 to 5 years? Where do you see the Company in the next 3 to 5 years?

Anish Maheshwari: 3 to 5 years will be a tough question for me right now because we are more focusing on the new facility of Morbi. As I told you, for next year if you will ask me so from Mumbai operations, we'll be expecting growth of around 5% to 10% and for Morbi over and all we are expecting revenue growth of around 15% to 20% over and all in a growth side. It might be in a higher side but now we are taking that growth as first quarter will be the full quarter to operation with our railways and all. I can give you the fair guidelines for next couple of years after first or second quarter. But 3 and 5 years might be a tough question right now, because after slump sale deal.

Rahul: 15% to 20% growth is sustainable for the next 3 to 5 years?

Anish Maheshwari: That I can say. 15% to 20% growth will be definitely I can say based on our past experience for Vapi also. First year we were having around 15% growth and after 2^{nd}-3^{rd} year we were having around 26% to 27% growth. With that aspect, I can say that it might be in a range of 15% to 20% year-on-year.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Anish Maheshwari, CFO for closing comments. Over to you, sir.

Anish Maheshwari: So, thank you so much to PhillipCapital and Chorus Call and all participants. I can say that with the blessings of you all and shareholders' support will be on a higher side, will be definitely come up with a fair sense of Morbi operations after one or two quarters and it will be positive for Company itself. Thank you so much.

Moderator: Thank you, sir. On behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.