January 23, 2023

# Blue Dart Express Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term / Short-term – Fund-based Limits** | 195.00 | 195.00 | [ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed |
| **Long-term/ Short-term – Interchangeable Limits** | - | (100.00) | ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed |
| **Long-term/ Short-term – Interchangeable Limits** | - | (50.00) | ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed |
| **Long-term/ Short-term – Non-fund Based Facilities** | 5.00 | 5.00 | [ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed |
| **Short-term – Interchangeable Limits** | - | (5.00) | [ICRA]A1+; reaffirmed |
| **Long-term/ Short-term – Interchangeable Limits** | (30.00) | (30.00) | [ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed |
| **Short-term – Interchangeable Limits** | (2.00) | (2.00) | [ICRA]A1+; reaffirmed |
| **Long-term – Fund-based – Term Loan** | 37.50 | - | - |
| **Total** | **237.50** | **200.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings reaffirmation continues to factor in the leadership position of Blue Dart Express Limited (BDEL) in the domestic air express segment, its expanding ground express segment, strong control over operations supported by dedicated ground and air infrastructure and the state-of-the-art technology backbone ensuring high service standards. The ratings also factor in the financial support from the Deutsche Post DHL (DPDHL) Group (ultimate parent, Deutsche Post AG; rated A2 (Stable) by Moody's) to BDEL, should there be any need. The same has been demonstrated in the past by infusion of funds by DHL Logistics Private Limited into BDAL for refinancing high cost debt to support its financial profile. The rating also factors in strong operational linkages with international freight carriers, as part of the DPDHL network, helping the company optimise its freight distribution operations globally. The rating also takes into account BDEL's improved performance with revenue growth of 34% in FY2022 and 32% in H1 FY2023 on a YoY basis, at a consolidated level, on account of recovery in economic activities after the Covid-19 pandemic and strong demand dynamics coupled with continuation of firm freight rates, also supported by base effect to an extent.

However, demand remains sensitive to any further waves or new virus variants given the sector's large dependance on economic activities and remains a key rating monitorable. The company reported healthy and improved operating margins of 22.8% in FY2022 over 21.2% in FY2021 owing to positive operating leverage and continuation of cost rationalisation measures. However, operating margins were impacted in H1 FY2023 with operating margins marginally moderating to 19.5% over 21.8% in H1 FY2022 owing to higher fuel procurement cost, which could not be passed on to end-customers. The rating also takes into account the significant reduction in external term loans with no external debt (except lease liabilities and group debt) outstanding as on March 31, 2022 and September 30, 2022.

The long-term rating, however, remains constrained by the capital intensive nature of air express and the susceptibility of profit margins to domestic economic activity, apart from the intensely competitive landscape. The linkage to general economic activity is clearly reflected by disruption in the business profile during Covid-19. The company has focussed on growing the ground express segment over the last few years, which is highly fragmented. Further, technology usage has reduced the traditional mail requirements across various industries, especially in the banking, financial services and insurance (BFSI) segment. The technology-led disruptions will continue to test the business models in the express cargo industry. BDEL's ability to continue to innovate and meet the evolving customer requirements will remain key over the long term. The company has a high operating leverage and, hence, healthy growth in shipments is critical for sustaining its operating profit margins.

ICRA's Stable outlook factors in the company's established position in the market, strong customer base and its healthy financial profile.

## Key rating drivers and their description

### Credit strengths

**Leadership position in domestic air express cargo segment** – BDEL is a leading player in the domestic express service industry, providing express air and integrated transportation and distribution services. The company, along with the business units of the DPDHL Group in India, offers a wide spectrum of distribution services, including air express, ground express, freight forwarding, supply chain solutions and customs clearance.

**Strong brand image and premium pricing ability supported by high service standards, infrastructure and state-of-the art technology** – BDEL has a strong brand reputation, built by providing reliable services through investment in infrastructure, technology and a vast network, besides having an early-mover advantage over competition. It has a seamless integrated network, with a dedicated fleet of aircraft, which helps the company maintain its commitment and reliability.

**Parent group supports business profile by aiding international delivery of shipments** – ICRA derives comfort from BDEL being a part of the DPDHL network (ultimate parent, Deutsche Post AG), providing a strong operating flexibility. Being a part of the DPDHL Group, BDEL has access to the largest express and logistics network worldwide, covering over 220 countries, which helps the company deliver international shipments to varied geographies. ICRA expects the DPDHL Group to be willing to extend financial support, if required, to BDEL. To support the credit profile, DHL Logistics Private Limited provided short-term lending to BDAL in the past.

**Strong management expertise; extensive experience of executive management with company** – BDEL's operations are managed by well-experienced professionals. The top management team has been associated with the company for more than a decade.

### Credit challenges

**Business vulnerable to slowdown in economy; high fixed-cost nature of business impacts profitability indicators as seen earlier** – BDEL's business is susceptible to economic downturns with the volume handled critical to ensure adequate utilisation of its captive freight-handling capacity. Due to the high operating leverage, healthy growth in shipments is critical for sustenance of operating profit margins as seen during the pandemic. Further, demand remains sensitive to any further waves or new virus variants with the sector's dependence on the economy as a whole, and remains a key rating monitorable.

**Increasing competitive intensity in express business** – The ground express segment has always been characterised by intense competition from a large, unorganised segment. BDEL also faces competition in the e-commerce logistics segment, with the emergence of logistics players backed by strong private equity investors in the last three to four years. More recently, new models in the premium road transportation have emerged with the backing of investors, resulting in customers preferring ground express over air express for movement of certain types of cargo. Maintaining its superior service standards and providing innovative solutions to evolving customer requirements will be key for BDEL to sustain its market leadership position.

**Green initiatives and increasing digitisation of documents and transactions to impact air express volumes over medium to long term –** Document movement constitutes a sizeable portion of air express volumes. Over the longer term, the impact of digitisation on the air express volumes continues to be key monitorable.

## Environmental and Social Risks

**Environmental considerations –** Emission is the key risk for the entity as the company operates in the logistic sector. To mitigate the risk, the company monitors its emissions from transportation via air and roadways regularly and is compliant with the Motor Vehicle Act and Pollution certificate. Emissions and waste generated by BDEL are within the permissible limits set by the Central Pollution Control Board (CPCB)/ State Pollution Control Board (SPCB) and it has not received any legal notice from CPCB/ SPCB. ICRA expects the company to be compliant with such norms, going forward, and does not foresee any material impact on its credit profile with respect to any emission norms. Some of the initiatives taken by the company are the use of smart truck technology, designed to provide solutions to urban logistics challenges such as traffic restrictions, density and clogging, while ensuring environmental protection and fulfilling customer needs for on-time delivery. BDEL offers a specialised Carbon Neutral Service initiative, wherein customers are provided an environmentally responsible shipping option to neutralise the carbon emissions produced by the transportation of their shipments. The service allows customers to neutralise their carbon footprint by paying an offset charge over and above their shipping rates. This not only allows the company to reduce emissions but also supports operational efficiency.

**Social considerations:** BDEL has taken several initiatives in the areas of education, social welfare and community healthcare. To establish better customer service, it has an established grievance mechanism to resolve customer complaints. BDEL provides safety and skill upgradation training to its permanent employees. All these measures ensure a healthy workforce and a client centric business proposition, thereby impacting the business positively.

## Liquidity position: Adequate

BDEL's liquidity position is adequate, supported by undrawn fund based lines of Rs. 215 crore at a consolidated level. Further, BDEL (consolidated) has no repayment obligations in Q4 FY2023 and FY2024, which supports the liquidity profile of the company. The company had an unencumbered cash and cash equivalents of ~Rs. 530 crore as on September 30, 2022. ICRA also factors in the willingness of the parent, the DPDHL Group, to provide timely financial support, if required, to the company. Further, the company's planned capex requirements of Rs. 450 crore, for purchasing two new aircraft in FY2023, is expected to be sufficiently funded by internal accruals and loans extended by Group companies.

## Rating sensitivities

**Positive factors** – ICRA could upgrade BDEL's rating if there is sustained improvement in the scale and profitability of the Group, leading to improvement in its credit metrics on a sustained basis. Any improvement in the credit profile of the DPDHL Group will also be a positive trigger.

**Negative factors** – Negative pressure on BDEL's rating could arise if there is a sustained pressure on scale and profitability of the Group leading to a deterioration of its credit metrics. Any weakening of support or linkage from the DPDHL Group, or any moderation of the DPDHL Group's credit profile will also be a negative rating trigger.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Impact of Parent or Group support on an Issuer's Credit Rating |
| **Parent/Group Support** | Parent/Group Company: Deutsche Post DHL (DPDHL) Group<br>We expect BDEL's parent, the DPDHL Group, to be willing to extend financial support to BDEL, should there be a need. |
| **Consolidation/Standalone** | The rating is based on the consolidated financial statements of BDEL. |

## About the company

Blue Dart Express Limited is involved in the transportation and door-to-door distribution of time-sensitive shipments, through an integrated ground and air transportation network. BDEL is regarded as South Asia's leading courier and integrated air express package distribution company. The company was initially floated as a partnership firm, M/s Blue Dart Courier Service, in 1983. In FY2005, DHL Express Singapore Pte Ltd. (a 100% subsidiary of Deutsche Post AG, or DPDHL) acquired an 81.03% stake in BDEL from its erstwhile promoters, Mr. Clyde Cooper, Mr. Tushar Jani, Mr. Khushroo Dubash, and other shareholders. In November 2012, to meet the Securities and Exchange Board of India's (SEBI's) requirements for promoter holding in public listed companies, DPDHL reduced its shareholding to 75% through an offer for sale (OFS).

BDEL has a leadership position in the Indian courier industry, facilitated by an extensive network covering more than 55,000 locations across India and servicing more than 220 countries and territories worldwide through a sales alliance (signed in October 2002) with DPDHL, one of the world's largest international air express companies. Through this alliance, BDEL benefits from DPDHL's global reach, cross border specialisation and larger network. For its international courier service, BDEL uses DPDHL's international network.

BDEL operates its own fleet of aircraft. Currently, BDEL, through BDAL (its wholly-owned subsidiary), operates six Boeing 757-200 freighter aircraft, of which three are owned and three are sourced on a lease basis from DHL. BDEL operates from seven air network stations, viz., Chennai, Bangalore, Mumbai, Delhi, Hyderabad, Kolkata and Ahmedabad. BDEL's ground fleet includes more than 12,000 vehicles, primarily on an outsourced basis to keep an asset-light model.

The Group, on a consolidated level, reported a net profit of Rs. 212.4 crore on an operating income (OI) of Rs. 2,618.6 crore in H1 FY2023.

### Key financial indicators (Consolidated)

| | FY2021 | FY2022 |
|---|---|---|
| **Operating Income (Rs. crore)** | 3,288.1 | 4,410.5 |
| **PAT (Rs. crore)** | 101.8 | 382.2 |
| **OPBDIT/OI (%)** | 21.2% | 22.8% |
| **PAT/OI (%)** | 3.1% | 8.7% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 3.8 | 2.1 |
| **Total Debt/OPBDIT (times)** | 2.2 | 1.1 |
| **Interest Coverage (times)** | 6.3 | 11.5 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Dec 31, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 | | |
| | | | | | Jan 23, 2023 | Dec 29, 2021 | Oct 30, 2020 | Feb 03, 2020 | Aug 13, 2019 | Apr 08, 2019 |
| 1 | Fund based Limits | Long term/ Short term | 195.00 | - | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ |
| 2 | Non Fund-Based Facilities | Long term/ Short term | 5.00 | - | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ |
| 3 | Term Loan | Long term | - | - | - | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 4 | Bank Guarantee-Interchangeable Limits | Long term/ Short Term | (30.00) | - | [ICRA]AA (Stable) /[ICRA]A1+ | [ICRA]AA (Stable) /[ICRA]A1+ | - | - | - | - |
| 5 | Letter of Credit-Interchangeable Limits | Short Term | (2.00) | - | [ICRA]A1+ | [ICRA]A1+ | - | - | - | - |
| 6 | WCDL Limits-Interchangeable Limits | Long term/ Short term | (100.00) | | [ICRA]AA (Stable) /[ICRA]A1+ | | | | | |
| 7 | WCDL Limits-Interchangeable Limits | Long term/ Short term | (50.00) | | [ICRA]AA (Stable) /[ICRA]A1+ | | | | | |
| 8 | Letter of Credit-Interchangeable Limits | Short term | (5.00) | | [ICRA]A1+ | | | | | |
| 9 | NCD | Long term | - | - | - | - | - | - | - | [ICRA]AA (Stable); Withdrawn |
| 10 | NCD | Long term | - | - | - | - | - | [ICRA]AA (Stable); Withdrawn | [ICRA]AA (Stable) | [ICRA]AA (Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long Term / Short Term - Fund Based Limits | Simple |
| Long Term / Short Term - Non Fund-Based Facilities | Very Simple |
| Long term/ Short Term – Interchangeable Limits – WCDL | Simple |
| Long term/ Short Term – Interchangeable Limits – Bank Guarantee | Simple |
| Short Term - Interchangeable Limits | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| - | Overdraft/ working capital demand loan | - | - | - | 45.00 | [ICRA]AA (Stable) /[ICRA]A1+ |
| - | Overdraft | - | - | - | 100.00 | [ICRA]AA (Stable) /[ICRA]A1+ |
| - | Working capital demand loan | - | - | - | (100.00) | [ICRA]AA (Stable) /[ICRA]A1+ |
| - | Overdraft | - | - | - | 50.00 | [ICRA]AA (Stable) /[ICRA]A1+ |
| - | Working capital demand loan | - | - | - | (50.00) | [ICRA]AA (Stable) /[ICRA]A1+ |
| - | Letter of credit/ Bank Guarantee | - | - | - | 5.00 | [ICRA]AA (Stable) /[ICRA]A1+ |
| - | Letter of credit | - | - | - | (5.00) | [ICRA]A1+ |
| - | Bank Guarantee | - | - | - | (30.00) | [ICRA]AA (Stable) /[ICRA]A1+ |
| - | Letter of credit | - | - | - | (2.00) | [ICRA]A1+ |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership* | Consolidation Approach |
|---|---|---|
| Blue Dart Aviation Limited | 100.00% | Full Consolidation |
| Concorde Air Logistics Limited | 100.00% | Full Consolidation |

*Source: Annual report, *As on March 31, 2022*

## ANALYST CONTACTS

**Shamsher Dewan**
+91 124 4545300
shamsherd@icraindia.com

**Srikumar Krishnamurthy**
+91 44 45964318
ksrikumar@icraindia.com

**Suprio Banerjee**
+91 22 6114 3443
supriob@icraindia.com

**Karan Gupta**
+91 22 6114 3416
karan.gupta@icraindia.com

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches