

May 24, 2017

## Blue Dart Aviation Limited

### Summary of Rated Instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term, fund based limits	10.00	[ICRA]AA (Stable); outstanding
Long-term / Short-term, non-fund based limits	75.00 (enhanced from 60.00)	[ICRA]AA (Stable) / [ICRA]A1+; assigned / outstanding

\*Instrument Details are provided in Annexure-1

### Rating action

ICRA has assigned the long-term rating of [ICRA]AA (pronounced ICRA double A) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 75.00 crore<sup>1</sup> (enhanced from Rs. 60.00 crore) long-term / short-term, non-fund based limits of Blue Dart Aviation Limited ('BDAL')<sup>2</sup>. ICRA also has rating of [ICRA]AA (pronounced ICRA double A) outstanding on the Rs. 10.00 crore long-term, fund based bank facilities of the company. The outlook on the long-term rating is 'Stable'.

### Rationale

The ratings factor in the strong operational and financial linkage between BDAL and Blue Dart Express Limited (BDEL; rated [ICRA]AA (Stable)/ [ICRA]A1+), with BDAL being the captive aviation company of BDEL. For arriving at the ratings, ICRA has assessed the consolidated financial risk profile of BDEL. BDEL's strengthening leadership position in the domestic air express segment has helped the group in optimally utilizing their dedicated aircraft fleet over years.

The group's financial risk profile remains comfortable despite the issue of bonus debentures to its shareholders in November 2014. ICRA takes due note of the capital-intensive nature of air express segment and the susceptibility of profit margins to domestic economic activity, which may impact free cash flows. Given the scheduled redemption of the debentures (in tranches) over FY2018-FY2020 as well as the resumption of aircraft engine overhaul cycle at BDAL, cash flow requirement over the next three years remains high for the group; while ICRA derives comfort from the current healthy cash positions as well as the strong cash accruals from operations, ICRA will continue to monitor the dividend payout policy of BDEL<sup>3</sup>.

### Key rating drivers

#### Credit strengths

- Captive aviation company and a wholly-owned subsidiary of BDEL (rated [ICRA]AA (Stable)/ [ICRA]A1+)
- Financial profile of the group (BDEL and BDAL combined) characterised by moderate capital structure and healthy operating cash flows
- Strong management expertise with most of the executive management having extensive experience with the company

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

<sup>3</sup> For FY2017, BDEL has paid a dividend of Rs. 15/- per share, which is lower than the dividend payout each year, over the previous three years

**Credit weakness**

- Sizeable capital expenditure (capex) lined up for the next three years towards aviation related maintenance; the same is expected to be funded partially through external debt, which will prevent any significant improvement in the group capital structure

**Description of key rating drivers:**

BDAL is currently a wholly owned subsidiary of BDEL, with BDEL increasing its stake in BDAL from 49% as at the beginning of FY2016 to 100% currently, in three tranches – as and when the regulations permitted, given the strategic importance of BDAL for BDEL’s operations. BDEL is a leading player in the domestic express service industry providing integrated air express and ground express services. As part of the DP DHL group, BDEL also has access to DP DHL’s large express and logistics network worldwide. The company offers a wide spectrum of distribution services including domestic and international air express, domestic ground express, and other related/ value added services. The air express segment contributes ~80% to company’s total turnover where the company dominates with a market share of 46% (ATK Study 2015). BDEL provides domestic air freight services utilizing six dedicated aircrafts from seven air network stations including one highly integrated facility at Bangalore International Airport; the aircrafts and the related infrastructure are held under BDAL. For the services provided by BDAL, BDEL reimburses all the expenses with a thin mark-up (excluding few expenses which are on actual basis) to BDAL as per the Aircraft, Crew, Maintenance and Insurance (ACMI) agreement (current agreement is valid till September 30, 2017; extendable).

As the aircrafts and the facilities are housed under BDAL, it incurs sizeable capex towards aviation related maintenance (majority toward aircraft engine overhaul). The company plans to fund the ongoing capex partially through debt, which will prevent any improvement in the group’s (BDEL consolidated) leverage from the current moderate levels, post the redemption of debentures over the next three years. However, BDEL, on a consolidated basis, has a robust financial profile as indicated by healthy profitability, strong cash flows and adequate liquidity.

**Analytical approach:** For arriving at the ratings, ICRA has taken a consolidated view of BDEL and BDAL, along with Concorde Air Logistics Limited, another wholly owned subsidiary of BDEL.

**Links to applicable Criteria**

[Corporate Credit Rating – A Note on Methodology](#)

**About the company:**

BDAL is the captive aviation company of BDEL and is the only dedicated cargo aviation company in India. BDAL operates a fleet of six freighter aircraft and provides dedicated air cargo services to BDEL. Majority of BDEL’s air cargo is carried through BDAL, while the balance is carried through domestic commercial airline companies. BDEL views BDAL as its extended operating arm which provides dedicated aviation services and infrastructure at airports. BDAL was set up in 1996 as a wholly-owned subsidiary of BDEL to provide air cargo services to BDEL. In FY2005, DHL Express (Singapore) Pte Ltd. took over BDEL following which, BDEL divested stake in BDAL to meet statutory requirements. However, subsequently, with the changes in the regulations, BDEL gradually increased its stake in BDAL. Currently, BDAL is again a wholly-owned subsidiary of BDEL (in November 2016, BDEL increased the stake from 74% to 100%).

BDAL has an integrated airside facility project at New Bangalore International Airport to enable BDEL to improve its service quality through operational efficiencies (improve throughput timing). In coming years, BDAL is planning to set up such facilities at other airports in the country.

As per audited financials for FY2016, BDAL reported a PAT of Rs. 3.12 crore on an OI of Rs. 585.80 crore, as against a PAT of Rs. 4.39 crore on an OI of Rs. 657.29 crore in FY2015.

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

**Any other information:** Not applicable

**Rating history for last three years**

**Table:**

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2015	Month- year & Rating in FY2014	
				<b>May 2017</b>	<b>April 2016</b>	<b>February 2015</b>	<b>September 2013</b>	
1	Fund based bank facility	Long-term	10.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA(SO) (Stable)	[ICRA]AA(SO) (Stable)	
2	Non-und based bank facility	Long-term/ Short-term	75.00	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA(SO) (Stable) / [ICRA]A1+(SO)	[ICRA]AA(SO) (Stable) / [ICRA]A1+(SO)	

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Name of the instrument</b>	<b>Date of issuance / sanction</b>	<b>Coupon rate</b>	<b>Maturity</b>	<b>Amount rated (Rs. crore)</b>	<b>Current rating and outlook</b>
Long-term, fund based bank facilities	-	-	-	10.00	[ICRA]AA (Stable)
Long-term / Short-term, non-fund based bank facilities	-	-	-	75.00	[ICRA]AA (Stable) / [ICRA]A1+

Source: BDAL

## Contact Details

### Analyst Contacts

**Subrata Ray**

+91 22 6114 3408

subrata@icraindia.com

**Shreekiran Rao**

+91 22 6114 3469

shreekiran.rao@icraindia.com

### Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

jayantac@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.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500