Blue Dart Aviation Limited (Revised)

April 08, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	-	75.0	[ICRA]AA (Stable); assigned
Long-term, Fund-based Limits	10.0	10.0	[ICRA]AA (Stable); outstanding
Long-term / Short-term, Non-fund Based Limits	75.0	75.0	[ICRA]AA (Stable) / [ICRA]A1+; outstanding
Total	**85.0**	**160.0**	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the strong operational and financial linkage between Blue Dart Aviation Limited (BDAL) and Blue Dart Express Limited (BDEL; rated [ICRA]AA (Stable)/ [ICRA]A1+), with BDAL being the captive subsidiary of BDEL. For arriving at the ratings, ICRA has assessed the consolidated financial risk profile of BDEL referred to as the Group. BDEL's strengthening leadership position in the domestic air express segment has helped the Group in optimally utilising their dedicated aircraft fleet over the years.

The Group's financial risk profile remains comfortable despite availing sizeable debt by BDAL to meet its capital expenditure (capex) requirements and BDEL to meet its expansion requirements. ICRA notes the capital-intensive nature of the 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 series 3 of BDEL in FY2020 as well as the continuation of capex related to aircraft maintenance in BDAL, cash flow requirement for this fiscal will remain high for the Group. ICRA notes the dip in margins at consolidated level in the past three quarters owing to the aggressive expansion programme undertaken by BDEL. The Group's ability to maintain its growth trajectory and reverse profitability pressures and continue maintaining adequate liquidity (after considering capital expenditure and dividend pay outs) will be critical to maintain its credit profile.

Outlook: Stable

ICRA expects BDEL, and hence BDAL, to continue to benefit from its leadership position in the air express segment and continue to outperform the industry. ICRA expects BDEL, along with BDAL, to leverage its extensive network post its expansion programme to witness strong growth in volumes leading to strong revenue growth over the medium term. The outlook also factors in the company's ability to maintain adequate profitability levels and debt protections metrics. The outlook may be revised to Positive if BDEL (consolidated) posts higher than ICRA's estimated growth in revenue and profitability. The outlook may be revised to Negative if cash accrual is lower than ICRA's estimates, or if the capex is significantly higher than our estimates resulting in higher borrowing levels, or if the opex continues to be higher than the estimates resulting in a further dip in its profitability parameters, or if a stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Captive aviation company and a wholly-owned subsidiary of BDEL (rated [ICRA]AA (Stable) / [ICRA]A1+) - BDAL is a wholly-owned subsidiary of BDEL (in November 2016, BDEL increased the stake from 74% to 100%) and provides dedicated air cargo services to BDEL through a fleet of six freight aircraft.

Financial profile of the Group (BDEL and BDAL combined) characterised by comfortable capital structure and comfortable liquidity – BDAL incurs sizeable capex towards aircraft maintenance (aircraft engine shop visits is required after completion of specified travel cycles). The company has funded the ongoing capex partially through debt, which has marginally increased the Group's (BDEL consolidated) leverage. However, BDEL, on a consolidated basis, has a comfortable financial profile as indicated by comfortable capital structure (leverage of 1.0 times and TD/OPBDITA of 1.88 times(annualized), as on December 31, 2018) and debt coverage indicators (interest coverage of 7.39 times in 9MFY2019), and adequate liquidity (cash and bank balances of Rs. 183.6 crore as on December 31, 2018). In addition, BDEL had earlier demonstrated its support to BDAL by providing loans to fund BDAL's capex requirements.

Strong management expertise with most of the executive management having extensive experience with the company – BDAL'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

Sizeable capex lined up for the next two years – A sizeable capex has been lined up for the next two years towards aircraft maintenance and is expected to be funded partially through external debt, which is likely to maintain the Group's leverage levels in line with FY2019.

Liquidity position:

BDEL's consolidated level of debt has increased in 9M FY2019 to fund its expansion programme as well as the planned capex requirement of BDAL largely towards aircraft maintenance. However, the Group has adequate cash and cash equivalents to fund its upcoming capex along with external debt tied up for these investments. It has also undrawn working capital facilities (Rs. 30 crore of unutilised fund-based limits of BDEL; Rs. 10 crore of unutilised fund-based limits and Rs. 50 crore of unutilised non-fund based limits of BDAL) to meet the working capital requirements.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]()
Parent/Group Support	Not Applicable
Consolidated / Standalone	The ratings are based on the BDEL's consolidated financial profile

About the company

BDAL is the captive aviation company of BDEL. BDAL operates a fleet of six freighter aircraft and provides dedicated air cargo services to BDEL. 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 seven air network stations, viz. in Chennai, Bangalore, Mumbai, Delhi, Hyderabad, Kolkata and Ahmedabad to enable BDEL to improve its service quality through operational efficiencies (improve throughput timing). In the coming years, BDAL is planning to set up such facilities at other airports in the country.

As per unaudited financials, the group on a consolidated level, reported a PAT of Rs 77.5 crore on an OI of Rs. 2,392.8 crore for the 9-month period ending December 31, 2018.

Key financial indicators (audited)

BDEL Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	2,689.5	2,799.2
PAT (Rs. crore)	139.8	144.7
OPBDIT/OI (%)	12.8%	12.7%
RoCE (%)	33.0%	30.4%
Total Debt/TNW (times)	1.1	0.8
Total Debt/OPBDIT (times)	1.4	1.2
Interest coverage (times)	7.6	8.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Apr-19	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019 Jun-18	Date & Rating in FY2018 May-17	Date & Rating in FY2017 Apr-16
1	Fund-based Bank Facility	Long-term	10.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund Based Bank Facility	Long-term / Short-term	75.0	-	[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	75.0	75.0	[ICRA]AA (Stable)	-	-	-

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

Corrigendum

Previously published document dated April 08, 2019 has been corrected with revisions as detailed below:

- Revision on Page 2 – the table under analytical approach section has been updated

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