

August 13, 2019

Blue Dart Aviation Limited: Ratings reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in the strong operational and financial linkages between Blue Dart Aviation Limited (BDAL) and Blue Dart Express Limited (BDEL; rated [ICRA]AA(Stable)/[ICRA]A1+), with BDAL being BDEL's captive subsidiary. 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 optimally utilise its dedicated aircraft fleet over the years.

The Group's financial risk profile remains comfortable, despite sizeable debt being taken by BDAL for its capital expenditure (capex) requirements and by BDEL for 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 the free cash flows. Given the scheduled (consolidated) debt repayments over FY2020-FY2021 as well as the continuation of capex related to aircraft maintenance in BDAL, the Group's cash flow requirement will remain high. ICRA notes the dip in margins at the consolidated level in the last five quarters, owing to the aggressive expansion programme undertaken by BDEL. The Group's ability to maintain its growth trajectory, reverse profitability pressures and continue maintaining adequate liquidity (after considering capex and dividend payouts) 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. ICRA also expects BDEL (along with BDAL) to leverage its extensive network, post its expansion programme, to witness a strong growth in volumes leading to a strong revenue growth over the medium term. The outlook also factors in the company's ability to maintain adequate profitability levels and debt protection metrics. The outlook may be revised to Positive if BDEL (consolidated) posts a higher-than-estimated growth in revenue and profitability. The outlook may be revised to Negative if cash accrual is lower than estimated, or if the capex is significantly higher than estimated resulting in increased borrowing levels, or if the opex remains higher than estimated 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 wholly-owned subsidiary of BDEL - BDAL, a wholly-owned subsidiary of BDEL (in November 2016, BDEL increased its stake from 74% to 100%), provides dedicated air cargo services to BDEL through a fleet of six freighter aircraft.

Consolidated financial profile characterised by comfortable capital structure and liquidity - BDAL incurs sizeable capex towards aircraft maintenance (aircraft engine shop visits are required after completion of specified travel cycles). The company funded the ongoing capex partially through debt, which 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 time and TD/OPBDITA of 2.0 times) and debt coverage indicators (interest coverage of 6.8 times), and adequate liquidity (cash and bank balances of Rs. 212.0 crore) in FY2019. In addition, ICRA takes comfort from BDEL's demonstrated support to BDAL in the form of loans to fund BDAL's capex requirements.

Strong management expertise; extensive experience of executive management with 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 planned for next two years - A sizeable capex is lined up for FY2020 and FY2021 towards aircraft maintenance. This is expected to be funded partially through external debt, which is likely to keep the Group's leverage levels under moderate pressure.

Liquidity position

BDEL's consolidated debt level increased in FY2019 to fund its expansion programme as well as BDAL's planned capex requirement, primarily towards aircraft maintenance. However, the Group has adequate cash and cash equivalents (Rs. 212.0 crore as on March 31, 2019) to fund its upcoming capex, along with external debt tied up for these investments. It also has undrawn working capital facilities (Rs. 30 crore of unutilised fund-based limits of BDEL, and 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
Consolidation/Standalone	The ratings are based on BDEL's consolidated financial profile

About the company

BDAL, a wholly-owned subsidiary and captive aviation company of BDEL, was set up in 1996. 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. In FY2005, DHL Express (Singapore) Pte Ltd. took over BDEL following which, BDEL divested its stake in BDAL to meet statutory requirements. However, with the subsequent changes in regulations, BDEL gradually increased its stake in BDAL. Currently, BDAL is again a wholly-owned subsidiary of BDEL.

BDAL has seven air network stations, viz. in Chennai, Bangalore, Mumbai, Delhi, Hyderabad, Kolkata and Ahmedabad, enabling BDEL to improve its service quality through operational efficiencies (by improved throughput timing). In the coming years, BDAL is planning to set up such facilities at other airports in the country.

As per audited financials, the Group, on a consolidated level, reported a profit after tax (PAT) of Rs. 89.8 crore on an operating income (OI) of Rs. 3,174.4 crore in FY2019, compared to a PAT of Rs. 144.7 crore on an OI of Rs. 2,799.2 crore in FY2018.

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	2,799.2	3,174.4
PAT (Rs. crore)	144.7	89.8
OPBDIT/OI (%)	12.7%	9.1%
RoCE (%)	30.4%	18.2%
Total Debt/TNW (times)	0.8	1.0
Total Debt/OPBDIT (times)	1.2	2.0
Interest Coverage (times)	8.8	6.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated	Amount Outstanding*	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
		(Rs. crore)	(Rs. crore)	Aug-19	Apr-19	Jun-18	May-17	Apr-16	
1 Fund-based Bank Facility	Long-term	10.0	-	[ICRA]AA (Stable)	[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+	[ICRA]AA (Stable) / [ICRA]A1+	
3 Term Loan	Long-term	75.0	75.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-	

*Outstanding as on March 31, 2019

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term Fund-based Bank Facilities	-	-	-	10.0	[ICRA]AA(Stable)
-	Long-term/Short-term Non-fund Based Bank Facilities	-	-	-	75.0	[ICRA]AA(Stable)/ [ICRA]A1+
-	Long-term Fund-based Term Loan	Dec-18	-	Dec-22	75.0	[ICRA]AA(Stable)

Source: Blue Dart Aviation Limited

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

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