

October 30, 2020

## 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	275.0	275.0	[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
<b>Total</b>	<b>360.0</b>	<b>360.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

While assigning the rating, ICRA has taken a consolidated view of Blue Dart Express Limited (BDEL) with Blue Dart Aviation Limited (BDAL) and Concorde Air Logistics Limited (both 100% subsidiary of BDEL).

The ratings reaffirmation favourably factors in the leadership position of Blue Dart Express Limited (BDEL) in the domestic air express segment, its expanding ground express segment, the 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 change in analytical approach and updated understanding based on the interaction with the management, suggesting that the Deutsche Post DHL (DPDHL) Group (ultimate parent - Deutsche Post AG; rated A3 (Stable) by Moody's) would extend financial support to BDEL, should there be any need. The rating also factors in strong operational linkages with international freight carriers, being a part of the DPDHL network, helping the company optimise its freight distribution operations globally. The company has a market share of ~48-49<sup>1</sup>% in the domestic organised air express segment and ~16-17<sup>2</sup>% in the organised ground express segment. The ratings also favourably factor in the adequate liquidity position of the company with free cash and cash equivalent of approximately Rs. 140 crore as on September 30, 2020.

ICRA notes that the revenues and profitability of BDEL were impacted in Q1 FY2021 due to the Covid-19 pandemic. However, the business has picked up in Q2 FY2021 and is expected to recover further in H2 FY2021 with the relaxation in lock-downs implemented by the Government of India (GoI) to prevent the spread of the virus. ICRA would continue to monitor the business recovery and financial performance of the company in the coming quarters.

<sup>1</sup>Source: Company Presentation

<sup>2</sup>Ibid

ICRA also takes due note of the capital-intensive nature of the air express and the susceptibility of profit margins to domestic economic activity, apart from the intensely competitive landscape, which may impact free cash flow. 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. Though the revenue growth for the company remained flat on a YoY basis in FY2020 (on a consolidated level), its adjusted profitability metrics were under pressure as reflected by the adjusted operating margin of 8.7% in FY2020 compared to 9.1% in FY2019 as the sales were impacted in the month of March 2020 with the lock-downs implemented by the GoI to prevent the spread of the virus. The company has a high operating leverage and hence healthy growth in shipments is critical for sustenance of its operating profit margins.

Given the sizeable scheduled consolidated debt repayments in FY2021 and FY2022, the cash flow requirement would remain high. However, ICRA derives comfort from the adequate unencumbered consolidated cash and equivalents of ~Rs. 140 crore on its books as on September 30, 2020. Nevertheless, the company's ability to ramp up its scale in the coming quarters, reverse profitability pressures and maintain adequate liquidity (after considering capex and future dividend pay-outs) will be critical to maintain its credit 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 has a market share of 48-49% in the domestic air express segment and 16-17% in the ground express segment. The company, along with the business units of the DP DHL 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 enjoys a strong brand reputation, which it has 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, coupled 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 documents along with financial support, if required** - ICRA derives comfort from BDEL being a part of the DPDHL network (ultimate parent - Deutsche Post AG), providing it strong operating flexibility. Being a part of the DP DHL Group, BDEL is able to access the largest express and logistics network worldwide, covering over 220 countries. This helps BDEL deliver international shipments to varied geographies. ICRA expects the DPDHL Group to be willing to extend financial support to BDEL, should there be any need.

**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 witnessed in Q4 FY2020 and Q1 FY2021-** BDEL's business is susceptible to economic downturns with the volume handled being critical to ensure adequate utilisation of its captive freight-handling capacity. Due to the high operating leverage in the business, healthy growth in shipments is critical for sustenance of operating profit margins. In Q4 FY2020 and in Q1 FY2021, the revenues of the company were impacted with the lockdown initiated by the GoI to prevent the spread of the Covid-19 pandemic. With the significant decline in scale in Q1 FY2021, the company witnessed loss at the operating level. The debt protection metrics of the company also moderated in this period with adjusted capital structure (without considering lease liability as debt) of 1.1 times as on March 31, 2020 compared to 1.0 time as on March 31, 2019 and adjusted interest coverage of 6.0 times in FY2020, compared to 6.8 times in FY2019. ICRA notes that the business of the company has picked up in Q2 FY2021 and is expected to recover further in H2 FY2021 with the relaxation in lockdowns implemented by the Government of India (GoI) to prevent the spread of the virus, aiding its profitability and debt protection metrics.

**Increasing competitive intensity in express business -** The ground express segment has always been characterised by intense competition, with the presence of 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 two to three years. In the air express segment, the company is facing some competition from the passenger airlines in the logistics space which may further increase in the coming years. More recently, new models in 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 the evolving customer requirements will be the keys 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. Increasing focus on digitisation in the country is resulting in an increase in the electronic transfer of documents. This is expected to impact document volumes for air express over the medium to long term. Also, the lockdown initiated by the GoI in Q1 FY2021, has further accelerated the pace of digitalisation, which may have some impact on the movement of documents.

## Liquidity position: Adequate

BDEL had a consolidated debt of Rs. 565.0 crore as on September 30, 2020. The company has raised additional debt of Rs. 100 crore in H1 FY2021 for sufficient liquidity. The company had an unencumbered cash and cash equivalents of ~Rs. 140 crore as on September 30, 2020. Additionally, 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. 43 crore of average unutilised non-fund based limits of BDAL for the last 12-months ending with June 2020) to meet its working capital requirements. ICRA also factors in the willingness of the parent, the DP DHL Group, to provide timely financial support, if required to the company.

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## Rating sensitivities

**Positive triggers** – ICRA could upgrade BDAL's rating if there is sustained improvement in its scale and profitability of the Group leading to improvement in its credit metrics on a sustained basis.

**Negative triggers** – Negative pressure on BDAL'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 indication of withdrawal of support from DPDHL group in future will also be a negative trigger.

## Analytical approach

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

## About the company

Blue Dart Express Limited is involved in 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 DP DHL) acquired an 81.03% stake in BDEL from its erstwhile promoters - Mr. Clyde Cooper, Mr. Tushar Jani and 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, DP DHL reduced its shareholding to 75% through an offer for sale (OFS).

BDEL commands a leadership position in the Indian courier industry, facilitated by an extensive network covering 35,000+ locations in India and servicing more than 220 countries and territories worldwide through a sales alliance (signed in October 2002) with DP DHL, one of the world's largest international air express companies. Through this alliance, BDEL benefits from DP DHL's global reach, cross border specialisation and larger network. For its international courier service, BDEL uses DP DHL's international network.

BDEL operates its own fleet of aircraft. As on date, BDEL, through BDAL (its wholly-owned subsidiary), operates six Boeing 757-200 freighter aircraft sourced on a lease basis from DHL. BDEL operates from seven air network stations, viz. in Chennai, Bangalore, Mumbai, Delhi, Hyderabad, Kolkata and Ahmedabad. BDEL's ground fleet includes 22,336 vehicles, primarily on an outsourced basis to keep an asset-light model.

As per provisional financials, the Group, on a consolidated level, reported a net loss of Rs. 125.8 crore on an operating income (OI) of Rs. 416.2 crore in Q1 FY2021.

### Key financial indicators (audited)

	<b>FY2019</b>	<b>FY2020</b>
Operating Income (Rs. crore)	3,174.4	3,175.1
PAT (Rs. crore)	89.8	-41.9
OPBDIT/OI (%)	9.1%	15.6%
PAT/OI (%)	2.8%	-1.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	4.2
Total Debt/OPBDIT (times)	2.0	2.9
Interest Coverage (times)	6.8	4.2

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

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years					
		Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating 30-Oct-20	Date & Rating 18-Nov-19	Date & Rating 13-Aug-19	Date & Rating 8-Apr-19	Date & Rating 28-Jun-18	Date & Rating 24-May-17	Date & Rating 16-May-17
1 Fund-based Bank Facility	Long-term	10.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[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+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+
3 Term Loan	Long-term	275.0	267.5	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-

Amount in Rs. crore \*Amount outstanding as on September 30, 2020

## 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 [click here](https://www.icra.in)

### Annexure-1: Instrument details

ISIN	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)
-	Long-term Fund-based Term Loan	Aug-19	-	Aug-21	100.0	[ICRA]AA(Stable)
-	Long-term Fund-based Term Loan	Sep-19	-	Sep-21	100.0	[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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