December 29, 2021

Blue Dart Express Limited: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	75.00	37.50	[ICRA]AA(Stable); reaffirmed
Long Term / Short Term - Fund Based	30.00	195.00	[ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed
Long Term / Short Term - Non Fund Based	6.15	5.00	[ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed
Long term/ Short Term – interchangeable	0.00	(30.00)	[ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed
Short Term – interchangeable	0.00	(2.00)	[ICRA]A1+; reaffirmed
Total	**111.15**	**237.50**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in the leadership position of 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 A3 (Stable) by Moody's) to BDEL, should the need arise. To support the credit profile, DHL Logistics Private Limited provided short-term lending to BDAL for refinancing its high-cost debt in FY2021. The rating also considers the strong operational linkages with international freight carriers, being a part of the DPDHL network, helping the company optimise its freight distribution operations globally. The rating also takes into account the company's improved performance in FY2021 and H1 FY2022 due to higher-than-expected revival of the economy post the lockdown in Q1 FY2021. Despite the pandemic impacting the business in H1 FY2021, the company reported a revenue growth of 3.6% in FY2021 on a YoY basis. The company also reported improved operating margins of 21.2% in FY2021 against 15.6% in FY2020 owing to reduction of network cost, yield increase and various cost efficiency measures undertaken in FY2021. It already reported Rs. 1989.8 crore in H1 FY2022 due to pent up demand and firm freight rates. Despite rising fuel prices, the operating margins remained healthy at 21.8% in H1 FY2022 with continuation of cost control measures and its ability to successfully pass on the high fuel prices to the customers. However, demand remains sensitive to further waves or new virus variants with the sector's large dependance on economic activities and remains a key rating monitorable.

The long-term rating, however, continues to be constrained by the capital-intensive nature of the air express and the susceptibility of profit margins to domestic economic activity, apart from the intensely competitive landscape. The linkage to economic activity is reflected by disruption in business profile in H1 FY2021 due to the pandemic. The company has focussed on growing the highly fragmented ground express segment over the last few years. 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 innovate and meet the evolving customer requirements will remain crucial over the long -term. The company has a high operating leverage and hence healthy growth in shipments is critical for sustenance of 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 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 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 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 aids 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 a strong operating flexibility. Being a part of the DP DHL Group, BDEL has access to the largest express and logistics network worldwide, covering over 220 countries, that 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 for refinancing high-cost debt in FY2021.

Management's strong and extensive expertise - 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

Vulnerable to slowdown in economy; high fixed-cost nature of business impacts profitability indicators- 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 first and second waves of the pandemic in Q1 FY2021 and Q1 FY2022, respectively. 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, 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 three to four 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 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 the evolving customer requirements will be the keys for BDEL to sustain its market leadership.

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. Digitisation in the country is resulting in an increase in the electronic transfer of documents, thus impacting document volumes for air express over the medium to long-term. Also, the lockdown had further accelerated the pace of digitalisation.

Liquidity position: Adequate

BDEL's liquidity position is adequate, supported by undrawn working capital lines of Rs. 195 crore of unutilised fund-based limits of BDEL (at standalone level), as of October 31, 2021. Further, BDEL, at the consolidated level, has low repayment obligation of Rs. 30 crore in H2 FY2022 and Rs. 245 crore in FY2023, expected to be adequately covered by cash accruals going forward. The company had an unencumbered cash and cash equivalents of ~Rs. 299 crore as on September 30, 2021. Specific to BDAL, the entity at standalone level has a buffer Rs. 10 crore in its fund-based limits as of October 31, 2021. Over and above, ICRA also factors in the willingness of the parent, the DP DHL Group, to provide timely financial support, if required to the company. To support the credit profile, DHL Logistics Private Limited provided short-term lending to BDAL for refinancing high-cost debt in FY2021.

Rating sensitivities

Positive factors - ICRA could upgrade BDEL's rating if there is a sustained improvement in its scale and profitability of the Group leading to an improvement in its credit metrics.

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 trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group support on an Issuer's Credit Rating
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 has a leadership position in the Indian courier industry, facilitated by an extensive network covering 35,000+ locations across 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. 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. in Chennai, Bangalore, Mumbai, Delhi, Hyderabad, Kolkata and Ahmedabad. BDEL's ground fleet includes 11,122 vehicles, primarily on an outsourced basis to keep an asset-light model.

The Group, on a consolidated level, reported a net profit of Rs. 121.8 crore on an operating income (OI) of Rs. 1989.8 crore in H1 FY2022.

Key financial indicators (Consolidated)

	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	3,175.1	3,288.1	1,989.8
PAT (Rs. crore)	-41.9	101.8	121.8
OPBDIT/OI (%)	15.6%	21.2%	21.8%
PAT/OI (%)	-1.3%	3.1%	6.1%
Total Outside Liabilities/Tangible Net Worth (times)	4.2	3.8	3.0
Total Debt/OPBDIT (times)	2.9	2.2	1.4
Interest Coverage (times)	4.2	6.3	9.1

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

		Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years					
						Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating in 29-Dec-2021	30-Oct-2020	3-Feb-2020	13-Aug-2019	8-Apr-2019	28-Jun-2018	17-May-2018
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+	[ICRA]AA (Stable) /[ICRA]A1+
2	Fund-based/ Non-fund Based Limits	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+	[ICRA]AA (Stable) /[ICRA]A1+
3	Term Loan	Long term	37.50	37.50	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
4	Bank Guarantee-interchangeable *	Long term / Short Term	(30.00)	-	[ICRA]AA (Stable) /[ICRA]A1+	-	-	-	-	-	-
5	Letter of Credit-interchangeable *	Short Term	(2.00)	-	[ICRA]A1+	-	-	-	-	-	-
6	NCD	Long term	-	-	-	-	-	-	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable)
7	NCD	Long term	-	-	-	-	-	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)
8	NCD	Long term	-	-	-	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
9	Commercial Paper	Short term	-	-	-	-	-	-	-	-	[ICRA]A1+; Withdrawn

** Sublimit of Rs. 100 crore overdraft from ICICI Bank*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based TL	Simple
Long Term / Short Term - Fund Based	Simple
Long Term / Short Term - Non Fund Based	Very simple
Long term/ Short Term - interchangeable	Very Simple
Short Term - interchangeable	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/ Bank name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Axis Bank	Fund Based Term Loan	Nov-18	-	Nov-22	37.50	[ICRA]AA(Stable)
Axis Bank	Overdraft/ working capital demand loan	-	-	-	45.00	[ICRA]AA (Stable) /[ICRA]A1+
ICICI Bank	Overdraft/ working capital demand loan	-	-	-	100.00	[ICRA]AA (Stable) /[ICRA]A1+
HDFC Bank	Overdraft/ working capital demand loan	-	-	-	50.00	[ICRA]AA (Stable) /[ICRA]A1+
Axis Bank	Letter of credit/ Bank Guarantee	-	-	-	5.00	[ICRA]AA (Stable) /[ICRA]A1+
ICICI Bank*	Bank Guarantee	-	-	-	(30.00)	[ICRA]AA (Stable) /[ICRA]A1+
ICICI Bank*	letter of credit	-	-	-	(2.00)	[ICRA]A1+

Source: *Company, Sublimit of Rs. 100 crore overdraft from ICICI Bank*

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, 2021*

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About ICRA Limited:

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