August 13, 2019

Blue Dart Express Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	75.00	75.00	[ICRA]AA(Stable); reaffirmed
Non-convertible Debenture (NCD)	71.18	71.18	[ICRA]AA(Stable); reaffirmed
Long-term/Short-term Fund-based Limits	30.00	30.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term Non-fund Based Limits	6.15	6.15	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Total	**182.33**	**182.33**	

**Instrument details are provided in Annexure-1*

Rationale

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 company has a market share of ~47-49[1]% in the domestic air express segment and ~14-15[2]% in the ground express segment. The ratings also favourably factor in the comfortable financial risk profile characterised by modest leverage, healthy interest coverage indicators and adequate liquidity. The ratings further derive comfort from BDEL being a part of the Deutsche Post DHL (DP DHL) network (ultimate parent - Deutsche Post AG; rated A3/P2 by Moody's), providing it strong financial and operating flexibility. The strong linkages with international freight carriers have helped the company optimise its freight distribution operations globally.

ICRA takes due note of the capital-intensive nature of air express and ground express businesses, and the susceptibility of profit margins to domestic economic activity apart from the intensely competitive landscape, which may impact free cash flows. The company has focussed on growing the ground express segment over the last few years, which is highly fragmented. Further, technology usage is reducing 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 company registered a strong YoY revenue growth of 13.4% in FY2019 (on a consolidated level), its profitability metrics were under pressure. The company's volume growth in FY2019 was supported by a higher festive season growth and a one-time increase in shipments in the document segment. However, the company's consolidated operating margins declined to 9.1% in FY2019 from 12.7% in FY2018 due to its aggressive expansion programme for ground network (which now stands at over 14,000 pin codes from ~7,000 pin codes at the end of CY2017, after rationalisation from 17,677 pin codes as on March 31, 2019). The operating costs

[1]*Source: Company*

[2]*Ibid*

(establishment, employee and network costs), part of the company's strategy to invest in its future growth, entail a gestation period depending upon the location. The company's ability to ramp up volumes from the new locations while retaining its market share will, thus, be critical to maintain adequate profitability levels.

Given the considerable scheduled (consolidated) debt repayments in FY2020 and FY2021 as well as the sizeable capital expenditure plans under BDEL (standalone) and Blue Dart Aviation Limited (BDAL) (part of the funding to be met through external debt for BDAL), the cash flow requirement would remain high. ICRA derives comfort from the adequate unencumbered consolidated cash and equivalents of Rs. 212.0 crore on its books as on March 31, 2019. However, the company's ability to maintain its growth trajectory, reverse profitability pressures and maintain adequate liquidity (after considering capex and dividend payouts) will be critical to maintain its credit profile.

Outlook: Stable

ICRA expects BDEL to continue to benefit from its leadership position in the air express segment. ICRA also expects BDEL 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

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 ~47-49% in the domestic air express segment and ~14-15% in the ground express segment, which has been maintained over the last three years. 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 commitment and reliability.

Comfortable consolidated financial risk profile - BDEL's financial risk profile was characterised by comfortable profitability, capital structure (leverage of 1.0 time), debt coverage indicators (TD/OPBDITA of 2.0 times) and interest coverage indicators (coverage of 6.8 times), as well as adequate liquidity (cash and bank balances of Rs. 212.0 crore) in FY2019.

Parent Group supports business profile by aiding international delivery of documents along with strong financial flexibility - ICRA derives comfort from BDEL being a part of the DP DHL network (ultimate parent - Deutsche Post AG), providing it strong financial and 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.

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 - BDEL's business is susceptible to economic downturns with the volume handled being critical to ensure adequate utilisation of its captive freight handling capacity. In FY2019, the company's ongoing investments towards expanding its ground express network significantly impacted its operating profitability. The investment entails a gestation period (upfront cost towards initial setup, rent, employees and network), while the benefits are expected to accrue over the medium term. The company's ability to ramp up volumes from the new locations will, thus, be critical to maintain an adequate profitability. During FY2017-FY2018, the domestic economic growth slowed down, impacting the logistics industry growth levels. While BDEL's volume growth slowed down during this period, it continued to outperform the market. This slowdown in volume growth, coupled with a high fixed-cost base, primarily resulted in the contraction in operating profit margins. Due to the high operating leverage in the business, healthy growth in shipments is critical for sustenance of operating profit margins.

Increasing competitive intensity in express business - The ground express segment has always been characterised by high competitive intensity, 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 couple of years. In the air express segment, passenger airlines have entered the logistics space by offering door-to-door service, thus competing with BDEL directly. 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 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. However, as per the management, the products carried by BDEL in this segment are premium and would be replaced only over a period of time.

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 statements

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 ~35,420 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. In addition, BDEL has 13 domestic hubs and 85 ground hubs across India, with its delivery conducted through a combination of hub-and-spoke and centipede models. BDEL's ground fleet includes 11,122 vehicles, primarily on an outsourced basis to keep an asset-light model.

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 (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					Aug-19	Apr-19	Jun-18	May-18	May-17	May-16
1	NCD	Long term	166.11	0.00	-	-	Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long term	94.91	0.00	-	Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	NCD	Long term	71.18	71.18	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Commercial Paper	Short term	-	-	-	-	-	Withdrawn	[ICRA]A1+	[ICRA]A1+
5	Fund-based Limits	Long term/ Short term	30.00	-	[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+
6	Fund-based/ Non-fund Based Limits	Long term/ Short term	6.15	-	[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+
7	Term Loan	Long term	75.00	75.00	[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
INE233B08103	NCD Series 3	Nov-14	9.5%	Nov-19	71.18	[ICRA]AA (Stable)
-	Fund-based Limits	-	NA	-	30.00	[ICRA]AA (Stable)/ [ICRA]A1+
-	Fund-based/ Non-fund Based Limits	-	NA	-	6.15	[ICRA]AA (Stable)/ [ICRA]A1+
-	Term Loan	Nov-18	-	Nov-22	75.00	[ICRA]AA (Stable)

Source: Blue Dart Express 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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