February 03, 2020

Blue Dart Express Limited: Rating withdrawn for the Rs. 71.18 crore non-convertible debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD)	71.18	0.00	[ICRA]AA(Stable); withdrawn
Term Loan	75.00	75.00	[ICRA]AA(Stable); outstanding
Long-term/Short-term Fund-based Limits	30.00	30.00	[ICRA]AA(Stable)/[ICRA]A1+; outstanding
Long-term/Short-term Non-fund Based Limits	6.15	6.15	[ICRA]AA(Stable)/[ICRA]A1+; outstanding
Total	**182.33**	**111.15**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn the long-term rating of [ICRA]AA (pronounced ICRA double A) with a Stable outlook assigned to the Rs. 71.18 crore non-convertible debenture (NCD) programme of Blue Dart Express Limited (BDEL or the company). The rating for the Rs. 71.18 crore NCD programme has been withdrawn, as there are no amounts outstanding against the rated instruments. The rating withdrawal is in accordance with ICRA's policy on withdrawal and suspension.

The previous detailed rating rationale is available on the following link: Click here

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. 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 5.7 times), as well as adequate liquidity (cash and bank balances of Rs. 91.2. crore) as on September 30, 2019.

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. Due to the high operating leverage in the business, healthy growth in shipments is critical for sustenance of operating profit margins. In FY2019 and H1 FY2020, the company's 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 were expected to accrue over the medium term. Also, volume growth remained impacted during H1FY2020 on account of the ongoing economic slowdown. This slowdown in volume growth, coupled with a high fixed-cost base, continued to weigh on the company's operating profit margins. During Q3FY2020, the company undertook a right sizing exercise in order to increase efficiency. Although there was a one-time impact on the company's profitability during 9M FY2020, it is expected to support the company's profitability in future. Apart from cost containment, improvement in economic activity translating into higher volumes for the company across locations will be critical to drive profitability metrics.

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: Adequate

BDEL had a consolidated debt of Rs. 546.2 crore as on September 30, 2019 (consolidated debt as on December 31, 2019 was Rs. 555 crore). The company had an unencumbered cash and cash equivalents (Rs. 91.2 crore as on September 30, 2019). 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. 50 crore of unutilised non-fund based limits of BDAL) to meet its working capital requirements. ICRA also factors in the company's strong parentage, which provides it considerable financial flexibility for refinancing and for raising fresh debt.

Rating sensitivities

Positive triggers – ICRA could upgrade BDEL's rating if the Group's adjusted RoCE (adjustment without considering the INDAS 116 effect) exceeds 20% and adjusted interest coverage (adjustment without considering the INDAS 116 effect) improves above 10x on a sustained basis.

Negative triggers – Negative pressure on BDEL's rating could arise if the Group's adjusted RoCE (adjustment without considering the INDAS 116 effect) remains below 15% or its adjusted debt/ OPBDITA (adjustment without considering the INDAS 116 effect) exceeds 2x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [ICRA Policy on Withdrawal and Suspension of Credit Ratings]
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 provisional financials, the Group, on a consolidated level, reported a net loss of Rs. 11.3 crore on an operating income (OI) of Rs. 2,448.8 crore in 9M FY2020. On an adjusted basis (adjustment without considering the INDAS 116 effect), the Group, on a consolidated level, reported a profit before tax (PBT) of Rs. 35.8 crore in 9M FY2020 compared to loss before tax of Rs. 7.7 crore with INDAS 116 effect. The company report a loss in 9M FY2020 as the company incurred a one-time expense of Rs. 64.1 crore in Q3 FY2020 consisting of Rs. 46.1 crore towards organization right sizing exercise and the rest of Rs. 18.0 written down to account for discontinuation of certain business activities and change in operating software for certain business function.

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)						Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
			(Rs. crore)		3-Feb-20	13-Aug-19	8-Apr-19	28-Jun-18	17-May-18	16-May-17	9-May-16
1	NCD	Long term	-	-	-	-	-	Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long term	-	-	-	-	Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	NCD	Long term	71.18	0.00	Withdrawn	[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+	[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+	[ICRA]AA (Stable) /[ICRA] A1+
7	Term Loan	Long term	75.00	75.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[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

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); withdrawn
-	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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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