India Ratings Revises Blue Dart Express's Outlook to Positive; Affirms 'IND AA'

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India Ratings and Research (Ind-Ra) has revised Blue Dart Express Ltd's (BDEL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating at 'IND AA'. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital*	-	-	-	INR1,950	IND AA/Positive/ IND A1+	Affirmed; Outlook revised to Positive from Stable
Non-fund-based working capital	-	-	-	INR50	IND AA/Positive/ IND A1+	Affirmed; Outlook revised to Positive from Stable
Term loan	-	-	November 2022	INR375	WD	Withdrawn (paid in full)

*Some of the limits are interchangeable between the fund-based and non-fund-based limits

Analytical Approach: Ind-Ra continues to take a consolidated view of BDEL and its wholly owned subsidiaries, Blue Dart Aviation Limited (BDAL) and Concorde Air Logistics Limited (CALL), for arriving at the ratings owing to the operational integration between the entities. BDAL operates six Boeing 757-200 aircraft for transporting cargo exclusively for BDEL, and is therefore an integral part of BDEL's operations. CALL is engaged in clearing and forwarding of international air cargo packages, as well as coordinates with domestic airlines for the movement of BDEL's domestic express cargo. Ind-Ra also continues to factor into the ratings the distress support potentially available to BDEL from its ultimate parent (Deutsche Post AG; Rated BBB+/Positive by Fitch Ratings).

The Positive Outlook reflects BDEL's sustenance of strong revenue growth and margins in FY22 and 1HFY23, its dominant presence in the Indian express delivery segment, synergistic business operations with its parent, and an improvement in its credit metrics. The sustenance of the operational performance (volumes and realisations) at the FY22 levels while maintaining healthy EBITDA margins will be key monitorables.

Key Rating Drivers

Robust Revenue growth; Comfortable Profitability: BDEL's revenue grew 34.1% and 31.6% yoy to INR44,105 million and INR26,186 million in FY22 and 1HFY23, respectively, largely driven by: i) a recovery in volume in the surface express and document business with the opening up of the economy; ii) strong e-commerce growth; iii) the general price increase undertaken each year; and iv) passing on of fuel price increase through fuel surcharge mechanism. Moreover, BDEL's consolidated EBITDA margins rose to 22.7% in FY22 (FY21: 20.9%), backed by the increase in realisations and better absorption of fixed cost. However, the EBITDA margin moderated to 19.5% in 1HFY23 (1HFY22: 21.8%), mainly due to an increase in the aviation turbine fuel prices, though it continued to remain at comfortable level. The margins are likely to moderate over FY23-FY24, due to the elevated fuel prices and under-absorption of fixed costs, resulting from lower capacity utilisation of two new aircrafts for the initial two-to-three quarters. The sustenance of the operational performance (volumes and realisations) at the FY22 levels amidst the weak macro-economic environment and healthy competition while maintaining healthy EBITDA margins are key rating monitorables.

Comfortable Credit Metrics: The consolidated net leverage (net financial debt and lease liabilities to EBITDA) reduced to 0.7x in FY22 (FY21:1.6x) and the gross interest coverage improved to 11.5x (6.2x), supported by the increase in profitability and full repayment of external debt of INR3,950 million in FY22.

With the addition of two cargo aircrafts, Ind-Ra expects the consolidated credit metrics to witness a slight deterioration in FY23, with its net debt to EBITDA going slightly above 1x. However, the improvement in its profitability led by an improvement in the capacity utilisation along with strong cashflow is expected to bring net debt to EBITDA below 1x in FY24. Nevertheless, Ind-Ra understands BDEL's air-freight business would continue to need a high capex outgo towards repairs and maintenance of freighter aircraft. An improvement in the profitability commensurate with the expansion undertaken by the company remains a key monitorable.

Dominant Market Position: BDEL has an established operating track record of over three decades and has built strong brand equity in express logistics industry. It has a leadership position in the domestic organised air express segment (market share of 54% in FY21 as per company) and a dominant presence in the premium segment of the road transportation market (market share of 16%-17% in 2020). BDEL has an extensive network which services over 55,000 locations in India across over 21,690 pin codes; this established infrastructure acts as an entry barrier and gives it a competitive advantage over its industry peers. Furthermore, BDEL is the only company in the package distribution/courier industry in India that operates its own fleet of six aircrafts. Moreover, the company would be adding two new aircrafts in its fleet, which are expected to reduce the company's reliance on commercial aircrafts' belly load and further strengthen its position in door-to-door services for time definite shipments. Considering the vast suite of services offered by the company, Ind-Ra believes BDEL will maintain its strong market position and remains the preferred logistics partner for institutional customers.

Linkages with Deutsche Post: Deutsche Post AG through DHL Express (Singapore) Pte Ltd., owns a 75% equity stake in BDEL. The Germany-listed company is one of the world's largest courier companies. BDEL remains strategically important for the parent for increasing its market coverage in highly accretive e-commerce logistics solutions business in India. BDEL's board of directors includes representatives from the parent. The company along with other Deutsche Post group companies in India has formed a steering committee, comprising senior management executives. The committee meets frequently to collaborate, optimise operations and maximise synergies amongst the business units with a focus on improving infrastructure, service quality and cost efficiencies, thereby improving customer experience. Furthermore, the company has access to over 220 countries and territories through DHL's global network, whereas Deutsche Post's Indian express consignments are being handled by BDEL. This provides synergies in the business operations. Additionally, logistics being a capex-heavy industry, BDEL also derives support from the parent's financial strength through inter-corporate debt and leasing of three aircrafts.

Liquidity Indicator – Adequate: BDEL has had a strong track record of generating positive free cash flow (FY22: 5,137.9 million; FY21: INR4,805.6 million) and maintaining sufficient liquidity over the past few years. The consolidated unencumbered cash and bank balances stood at INR3,163.3 million at FYE22. The strong cash generated over the years has mainly been utilised for the capital expenditure programme and dividend payments, while its use of working capital limits has remained limited. Ind-Ra believes the liquidity profile over the medium term would be supported by healthy cash flows on the back of revenue growth and healthy EBITDA margin and undrawn and/or additional working capital lines. Ind-Ra also draws comfort from the strong financial flexibility of BDEL and its ultimate parent, which reinforces the group's refinancing ability in times of requirement.

Healthy Standalone Profile: At a standalone level, in FY22, BDEL's revenue grew 34.4% yoy to INR 44,090 million, while the EBITDA margin increased to 16.0% (FY21: 11.5%), mainly due to operating leverage and various cost-efficiency measures undertaken by the management. The increase in the EBITDA margin, which was in line with rise the consolidated margin, led to an improvement in the standalone credit metrics, with company turning net cash positive. The revenue continued to increase in 1HFY23, with yoy growth of 31.7%; however, the EBITDA margin moderated slightly to 13.5% (1HFY22: 14.2%).

Industry Risks: BDEL's business is cyclical in nature, and fears of an impending recession could impact the volumes handled by the company. Furthermore, BDEL derives a sizeable portion of its air express business from document movements which is likely to structurally decline in the medium-to-long term amidst the digitisation trend. Moreover, companies in the express package distribution industry have a high degree of operating leverage and any pressure on volumes could impact their profitability and credit metrics. The rating is also constrained by the air-freight industry's fixed-cost heavy business model and high capex intensity.

Intense Competition: The ratings are constrained by the competitive nature of the courier and package distribution business. Furthermore, even in the e-commerce segment, some of the big players continue to invest in their own logistics operations, which might impact the operations of organised logistics players. However, BDEL's high service standards and strong brand image have enabled it to maintain its leading market share.

Rating Sensitivities

Positive: Future developments which could, individually or collectively, lead to a positive rating action include:

- the sustenance of the operational performance (volumes and realisations) at FY22 levels while maintaining healthy EBITDA margins
- the adjusted net leverage (adjusted net debt/operating EBITDA) reducing below 1.0x on a sustained basis.

Outlook Revision to Stable: Future developments which could, individually or collectively, lead to the Outlook being revised to Stable include:

- any weakening in the business profile, as reflected in a significant decline in the revenue and operating profitability
- lower-than-expected profitability or large dividend payments or capex, leading to the net leverage exceeding 1.0x, on a sustained basis.

Company Profile

BDEL is among the largest private courier and integrated express package distribution companies in India. It commenced operations in 1983 and was listed in 1994. BDEL was acquired by DHL Express (Singapore) in 2005. DHL Express is the express division of the German logistics company Deutsche Post, providing international express mail services.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY22	FY21
Revenue (INR million)	44,105	32,881
EBITDA (INR million)	9998	6,863
EBITDA margin (%)	22.7	20.9
Gross interest coverage (x)	11.5	6.2
Adjusted net leverage (x)	0.7	1.6
Source: BDEL, Ind-Ra		

Solicitation Disclosures

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APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Parent and Subsidiary Rating Linkage

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating	28 December 2021
Issuer rating	Long-term		IND AA/Positive	IND AA/Stable
Fund-based working capital	Long-term/ Short- term	INR1,950	IND AA/Positive/ IND A1+	IND AA/Stable/ IND A1+
Non-fund-based working capital	Long-term/ Short- term	INR50	IND AA/Positive/ IND A1+	IND AA/Stable/ IND A1+
Term loan	Long-Term	INR375	WD	IND AA/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Term loan	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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