February 26, 2024

Blue Dart Aviation 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/ Short-term - Fund Based Limits	20.0	20.0	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Long-term / Short -term - Non-fund Based Facilities	115.0	125.0	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed/ assigned for enhanced amount
Short Term- Interchangeable Limits	(20.00)	(20.00)	[ICRA]A1+; reaffirmed
Total	**135.0**	**145.0**	

**Instrument details are provided in Annexure-I*

Rationale

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

The ratings reaffirmation considers the expectation of stable financial performance in the near term, given 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 need-based financial support from the Deutsche Post DHL (DPDHL) Group (ultimate parent, Deutsche Post AG; rated A2 (Stable) by Moody's) as witnessed in the past with infusion of funds by DHL Logistics Private Limited into BDAL. The ratings also factor in BDEL's strong operational linkages with international freight carriers, as part of the DPDHL network, helping the company optimise its freight distribution operations globally.

ICRA notes that BDEL reported a revenue growth of 17% in FY2023, at a consolidated level, on account of increase in shipment carried amid strong demand dynamics. Despite expected increase in volume of shipments carried in FY2024, the top line is expected to remain flattish, driven by normalcy in business after a surge in rates during FY2021-FY2022. ICRA also notes that the company does not have any external debt (except lease liabilities and loans from a Group company) outstanding as on March 31, 2023, and September 30, 2023. The rating also factors in the company's healthy debt protection metrics and robust return indicators along with expectation that it will be able to sustain the same, going forward.

The long-term rating, however, remains constrained by the capital intensive nature of air express and the susceptibility of profit margins to domestic economic activity, apart from the intensely competitive landscape. Further, demand remains sensitive to the sector's large dependence on economic activities and remains a key rating monitorable. The company reported lower operating margins of 18.6% in FY2023 over 22.8% in FY2022 owing to higher fuel procurement cost (especially jet fuel), which could not be passed on to end-customers. The operating margins further witnessed a dip to 15.9% in 9M FY2024 (18.7% in 9M FY2023) owing to normalisation in demand amid stiff competition and negative operating leverage due to the addition of two new aircraft in the current fiscal.

The company has focused 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. The company has a high operating leverage and, hence, healthy growth in shipments is critical for sustaining its operating profit margins.

ICRA's Stable outlook factors in the expectation that the company will continue to command its leadership position in the time sensitive express cargo segment, strong parentage and continuation of healthy debt metrics, in the absence of any major debt-funded capex, which remains commensurate with the existing rating.

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, along with the business units of the DPDHL Group in India, offers a wide spectrum of distribution services, including air express, ground express, freight forwarding, supply chain solutions and customs clearance. BDEL's operations are managed by experienced professionals. The top management team has been associated with the company for more than a decade.

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 supports business profile by aiding international delivery of shipments – ICRA derives comfort from BDEL being a part of the DPDHL network (ultimate parent, Deutsche Post AG), providing a strong operating flexibility. As part of the DPDHL Group, BDEL has access to the largest express and logistics network worldwide, covering over 220 countries, which helps it deliver international shipments to varied geographies. ICRA expects the 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 in the past.

Large scale of operations, coupled with healthy debt protection metrics and robust return indicators – BDEL (consolidated) reported a healthy, YoY revenue growth of 17% to Rs. 5,172.2 crore in FY2023 on account of increase in shipment carried amid strong demand dynamics. Despite expected increase in volume of shipments carried in FY2024, the top line is expected to remain flattish, driven by normally in business after a post-pandemic surge in rates. However, the scale of operations continues to remain large. Aided by adequate retained cash flows and unencumbered cash and liquid investments, BDEL's dependence on external debt (except lease liabilities and group debt) has remained limited. Moreover, the debt protection metrics remained robust with total debt/ OPBITDA of 1.2 times in FY2023 (1.1 times in FY2022) and interest coverage of 14.4 times in FY2023 (11.5 times in FY2022). Further, the return indicators remained strong as reflected by return on capital employed (RoCE) at 30.6% in FY2023 (30.0% in FY2022).

Credit challenges

Business vulnerable to slowdown in economy; high fixed-cost nature of business impacts profitability indicators as seen earlier – 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 pandemic. Further, the company's operating margins witnessed a dip to 18.6% in FY2023 against 22.8% in FY2022 owing to higher fuel procurement cost, which could not be passed on to end-customers. The operating margins further declined to 15.9% in 9M FY2024 (18.7% in 9M FY2023) owing to normalisation in demand amid stiff competition and negative operating leverage due to the addition of two new aircraft in the current fiscal. However, the company has been able to increase its total domestic shipments to 3,273 lakh in FY2023, a YoY growth of 24%, amid strong demand dynamics.

Increasing competitive intensity in express business – The ground express segment has always been characterised by intense competition from 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 (PE) investors in the last four to five 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 evolving customer requirements will be key 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. Over the longer term, the impact of digitisation on the air express volumes continues to be a key monitorable.

Environmental and Social Risks

Environmental considerations – Emission is the key risk for the entity as the company operates in the logistic sector. ICRA expects the company to be compliant with emission norms, going forward, and does not foresee any material impact on its credit profile in this regard. BDEL is exposed to risk of increase in operating costs, to incorporate most efficient mechanisms to reduce local air pollution from the industry or make investments to modernise its fleets due to regulatory pressure, customer demand, and rising fuel costs. Some of the initiatives taken by the company are use of alternative sources like e-vehicles, usage of LED lights, installing water sensor taps, digitizing processes to reduce paper consumption, and reduction in carbon emissions. Further, BDEL offers a specialised Carbon Neutral Service initiative, wherein customers are provided an environmentally responsible shipping option to neutralise the carbon emissions produced by the transportation of their shipments. The service allows customers to neutralise their carbon footprint by paying an offset charge over and above their shipping rates. This not only allows the company to reduce emissions but also supports operational efficiency.

Social considerations – BDEL has taken several initiatives in the areas of education, social welfare and community healthcare. To establish better customer service, it has an established a grievance mechanism to resolve customer complaints. BDEL provides safety and skill training to its permanent employees. All these measures ensure a healthy workforce and a client centric business proposition, thereby impacting the business positively.

Liquidity position: Adequate

BDEL's liquidity position is adequate, supported by undrawn fund-based lines of Rs. 215 crore at a consolidated level. Further, BDEL (consolidated) has no repayment obligations till Q4 FY2025 (repayment obligations of Rs. 250 crore in Q4 FY2025 to Group company), which supports its liquidity profile. The company had an unencumbered cash and cash equivalents of ~Rs. 248.7 crore as on September 30, 2023. ICRA also factors in the willingness of the parent, the DPDHL Group, to provide timely financial support, if required, to the company.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is sustained improvement in the scale and profitability of the Group, leading to improvement in its credit metrics on a sustained basis. Any improvement in the credit profile of the DPDHL Group will also be a positive rating trigger.

Negative factors – Negative pressure on the rating could arise if there is a sustained pressure on scale and profitability of the Group leading to a material 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 rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 the 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 DPDHL) acquired 81.03% stake in BDEL from its erstwhile promoters, Mr. Clyde Cooper, Mr. Tushar Jani, 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, DPDHL reduced its shareholding to 75% through an offer for sale (OFS).

BDEL enjoys a leadership position in the Indian courier industry, facilitated by an extensive network covering more than 56,400 locations across India and servicing more than 220 countries and territories worldwide through a sales alliance (signed in October 2002) with DPDHL, one of the world's largest international air express companies. Through this alliance, BDEL benefits from DPDHL's global reach, cross-border specialisation and larger network. For its international courier service, BDEL uses DPDHL'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 and two new Boeing 737-800, of which seven are owned and only one is leased from DHL. BDEL operates from seven air network stations, viz., Chennai, Bangalore, Mumbai, Delhi, Hyderabad, Kolkata and Ahmedabad. BDEL's ground fleet includes more than 12,000 vehicles and 360 e-vehicles, which are primarily outsourced to maintain an asset-light model.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	4,410.5	5,172.2
PAT	382.2	370.5
OPBDIT/OI	22.8%	18.6%
PAT/OI	8.7%	7.2%
Total outside liabilities/Tangible net worth (times)	2.1	1.6
Total debt/OPBDIT (times)	1.1	1.2
Interest coverage (times)	11.5	14.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 26, 2024	Jan 23, 2023	Dec 30, 2021	Oct 30, 2020
1	**Fund Based Term Loan**	Long Term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	**Fund Based Limits**	Long Term	-	-	-	-	-	[ICRA]AA (Stable)
3	**Fund Based Limits**	Long Term/ Short term	20.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-
4	**Non Fund-Based Facilities**	Long Term/ Short Term	125.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
5	**Letter of Credit- Interchangeable Limits**	Short Term	(20.00)	-	[ICRA]A1+	[ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/ Short term - Fund Based Limits	Simple
Long Term / Short Term - Non Fund-Based facilities	Very Simple
Short Term – Interchangeable Limits	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund Based-Overdraft/ working capital demand loan**	NA	NA	NA	20.0	[ICRA]AA(Stable)/[ICRA]A1+
NA	**Non Fund-Based facilities- Letter of credit/ Bank Guarantee**	NA	NA	NA	125.0	[ICRA]AA(Stable)/[ICRA]A1+
NA	**Interchangeable Limits - Letter of credit**	NA	NA	NA	(20.0)	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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, 2023*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches