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Company update

Logistics

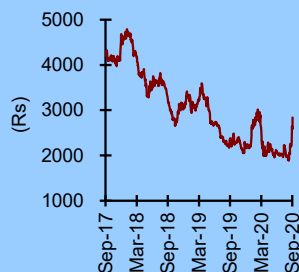
Target price: Rs1,746

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	75.0	75.0	75.0
Institutional investors	13.6	13.6	13.5
MFs and UTI	1.8	2.9	3.1
FIs/ Banks	2.7	2.6	2.6
Insurance Cos.	5.4	5.4	5.4
FII	3.7	2.7	2.4
Others	11.4	11.4	11.5

Source: CMIE

Price chart



INDIA



Blue Dart Express

SELL

Maintain

Expectations running ahead of fundamentals

Rs2,838

Two recent events have generated significant interest for air express players: 1) Global belly cargo capacity has remarkably reduced and, on some routes, air freight rates have increased by 30-60%. Due diligence suggests that rates have gone up in India by 7-15% -- a hope-inducing factor for Blue Dart Express (BDE) given its operating leverage. 2) Recent DHL commentary highlights the Covid vaccine distribution opportunity that may open up for the air express industry. Researchers have also estimated that 15,000 flights would be needed to ensure global distribution of the vaccine over next two years. This presents an opportunity for the Indian express and 3PL players. These two events have resulted in salience for Indian air express, particularly BDE. Reiterate SELL on BDE as the structural headwinds of the model will sustain.

- ▶ **While global belly cargo freight rates have increased by 30-60%, due diligence suggests the same in India have risen 7-15%.** Globally, the rate increase has been driven by decline in belly cargo capacity – which is leading to an increase in freight load factor despite drop in freight ton-km. Under normal circumstances, about 60% of air cargo globally is flown in the belly-hold of passenger flights. With hundreds of those jets parked waiting out the pandemic, airfreight costs have spiraled: **rates to North America from Hong Kong are up almost 60% this year.** Due diligence suggests, Indian belly cargo freight rates are up 7-15% (mostly YTD). This can be extremely prospective for BDE since the business has meaningful operating leverage and margins can expand materially with price hikes of 7-15%.
- ▶ **BDE has seen success in wresting more market share in domestic air freight traffic in FY20 – presumably by closing the pricing gap with belly cargo of commercial carriers.** BDE did see a sharp market share gain (~3.5% YoY) in air freight cargo over FY20 (IBEF data) – presumably as the company tried to normalise/reduce pricing. This ensures average realisation of Rs41/kg, not far from the average costing of belly cargo of commercial carriers (Indigo and Spice). With increase in belly cargo freight rates of commercial carriers, BDE will also enjoy pricing/margin benefits. The key question remains whether such pricing power may sustain. Globally we have tracked certain commentaries, e.g. Qatar Airways, one of the world's heavyweights in freight, does not see cargo rates declining for at least 12 months.
- ▶ **DHL commentary also raises hope for air express volumes till FY22.** Insufficient last mile connectivity, cooling facilities in the final delivery stages and lack of storage at clinics would 'pose biggest challenge' to delivering vaccines on a high scale (this is particularly true for mRNA vaccines). Researchers have also estimated that 15,000 flights would be needed to ensure global distribution over the next two years.

Market Cap	Rs67.3bn/US\$918mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	BLDT.BO / BDE IN	Revenue (Rs mn)	31,744	31,751	29,074	32,301
Shares Outstanding (mn)	23.7	EBITDA (Rs mn)	2,855	4,742	3,971	4,742
52-week Range (Rs)	3014/1886	Net Income (Rs mn)	898	223	(542)	65
Free Float (%)	25.0	EPS (Rs)	37.8	9.4	(22.8)	2.7
FII (%)	2.4	P/E (x)	74.1	299.0	(122.7)	1,026.2
Daily Volume (US\$'000)	944	CEPS (Rs)	91.6	155.5	130.0	150.5
Absolute Return 3m (%)	36.7	EV/E (x)	24.1	16.7	19.6	16.1
Absolute Return 12m (%)	20.7	Dividend Yield	0.5	0.7	0.9	0.9
Sensex Return 3m (%)	14.1	RoCE (%)	16.4	15.3	4.9	11.7
Sensex Return 12m (%)	5.7	RoE (%)	15.5	4.5	(13.3)	1.7

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- **Temporary pricing and margin benefits may last for some time.** Continued competition by road, ultra price sensitive customers and a heightened belly cargo capacity will eventually help normalise margins barring an interim blip. BDE's sustainable success can be in using this opportunity to aggressively restructure costs and try to be successful in road express. Maintain **SELL**. The Covid vaccine distribution story in India cannot be >Rs2bn-3bn p.a. opportunity given the price sensitive nature of market and eventual penetration of vaccines.

Sensitivity to higher freight rates

High operating leverage, allows significant margin upside with increase in realisations. Table 1 highlights the change in realisation impact to EBITDA and our FCF valuation. To note, we haven't altered the ATF rates in the scenario. Some of the increase in realisations/rate would have been to offset the increase in ATF rates.

Table 1: Sensitivity of earnings and valuations to higher freight rates

(Rs mn)	FY21		
	Base Case	+5% Realisation	% Chg
Sales	29,074	30,528	5.0
Gross margin	13,328	14,782	10.9
EBITDA	3,971	5,335	34.4
EBITDA Margin (%)	13.7	17.5	
PAT	(542)	479	NM
FCF assuming margins are maintained (<i>Scenario 2 assumptions</i>)	2,212	3,112	40.7
FCF assuming margins normalise	2,212	2,220	0.4

Scenario 2 assumptions i.e 10% p.a volume growth for next n years.

Source: Company data, I-Sec research

Valuation doesn't change unless one assumes that the margin gains out of the current Covid driven price hikes can sustain

Maintain **SELL** with a weighted average target price of Rs1,746/share

We maintain our **SELL** rating on BDE with a target price of Rs1,746/share – average target price from two scenarios. In Scenario 1, we maintain a lower volume scenario, assuming 3% p.a. volume growth in the foreseeable future. We have also further reduced capex in this scenario as we don't see any aircraft addition any time soon. Employee cost assumptions are also different in both low volume and high volume scenarios.

In Scenario 2, we have assumed a 10% volume growth rate, a slightly higher capex and the benefits of operating leverage. In none of the scenarios we have included the benefits of pricing currently seen in the belly cargo of the commercial carriers.

Sharp rebound expected in FY22E post the reset and margin trajectory remain the key risk to our estimates (margin trajectory is also a crucial monitorable).

Table 2: DCF valuation of Blue Dart Express (new): Scenario-1 (low growth)

(Rs mn)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	361	729	1,166	2,857	3,417	3,932
NOPAT	3,929	4,009	4,194	4,077	4,260	4,469
Capex	(1,500)	(1,000)	(1,000)	(1,359)	(1,359)	(1,359)
Change in WC	502	(91)	(68)	(102)	(115)	(110)
FCFF	2,931	2,918	3,126	2,617	2,786	2,999
Terminal value						44,132
Total	2,931	2,918	3,126	2,617	2,786	47,132
NPV of FCFF	38,370					
Net debt	7,946					
NPV of FCFE	30,424					
Value per share	1,280					

Source: Company data, I-Sec research

Table 3: DCF valuation of Blue Dart Express (new): Scenario-2 (10% p.a. growth)

(Rs mn)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	340	1,232	2,364	4,377	6,422	8,112
NOPAT	3,885	4,432	5,198	5,727	6,550	7,630
Capex	(3,540)	(3,182)	(3,016)	(1,978)	(1,734)	(1,565)
Change in WC	502	(247)	(249)	(277)	(348)	(373)
FCFF	847	1,003	1,933	3,472	4,468	5,692
Terminal value						83,752
Total	847	1,003	1,933	3,472	4,468	89,444
NPV of FCFF	63,707					
Net debt	11,149					
NPV of FCFE	52,558					
Value per share	2,212					

Source: Company data, I-Sec research

While tonnage growth assumptions stay reduced, we have increased realisation profile in the hope that industry players would attempt to maintain profitability in some manner.

Table 4: Assumptions : Scenario-1

Growth (%)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Tonnage	7.7	8.7	7.0	3.2	(8.2)	3.0	3.0	3.0	3.0	3.0
Realisation/kg	(2.4)	(4.2)	6.0	(3.0)	-	2.0	2.0	2.0	2.0	2.0

Source: Company data, I-Sec research

Table 5: Assumptions : Scenario-2

Growth (%)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Tonnage	7.7	8.7	7.0	3.2	(8.2)	10.0	10.0	10.0	10.0	10.0
Realisation/kg	(2.4)	(4.2)	6.0	(3.0)	-	1.0	1.0	1.0	1.0	1.0

Source: Company data, I-Sec research

Financial summary (consolidated): Scenario - 2

Table 6: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Revenue from operations	31,744	31,751	29,074	32,301
Direct Expenses	17,662	16,561	15,746	17,142
Gross Margin	14,082	15,191	13,328	15,159
% margins	44.4%	47.8%	45.8%	46.9%
Other operating expenses	11,227	10,449	9,358	10,417
EBITDA	2,855	4,742	3,971	4,742
% margins	9.0%	14.9%	13.7%	14.7%
Other Income	192	155	165	165
Depreciation & Amortisation	1,279	3,473	3,631	3,511
Gross Interest	427	1,174	1,229	1,310
Profit before tax	1,341	250	(724)	87
Less: Taxes	444	27	(182)	22
Net Income (Reported)	898	(419)	(542)	65

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	9,201	7,809	8,850	11,226
of which cash & cash eqv.	2,687	1,000	2,831	4,699
Total Current Liabilities & Provisions	6,273	6,350	6,061	6,323
Net Current Assets	2,928	1,460	2,789	4,904
Net Fixed Assets	5,885	6,617	6,526	6,198
Intangible assets	1,039	990	990	990
Capital Work-in-Progress	526	160	160	160
Other non-current assets	948	1,123	1,123	1,123
Total Assets	11,326	19,413	18,871	19,035
Liabilities				
Borrowings	5,028	4,375	6,226	8,077
Deferred Tax Liability	(513)	(645)	(645)	(645)
Other long term liabilities	1,035	1,466	1,466	1,466
Equity Share Capital	238	238	238	238
Reserves & Surplus	5,540	4,671	3,832	3,600
Net Worth	5,777	4,908	4,070	3,838
Total Liabilities	11,326	19,413	18,871	19,035

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Profit before tax	1,341	(391)	(724)	87
Depreciation	1,279	3,623	3,631	3,511
Non-Cash Adjustments	331	1,307	1,064	1,145
Working Capital Changes	287	(290)	502	(247)
Taxes Paid	(805)	(608)	182	(22)
Operating Cash flow	2,433	3,641	4,655	4,474
Capital Commitments	(2,874)	(1,990)	(3,540)	(3,182)
Free Cash Flow	(441)	1,652	1,115	1,291
Other investing cashflow	70	60	165	165
Cash flow from Investing Activities	(2,804)	(1,929)	(3,375)	(3,017)
Inc (Dec) in Borrowings	1,576	(2,593)	1,851	1,851
Dividend and dividend tax paid	(358)	(358)	(297)	(297)
Others	(427)	(451)	(1,229)	(1,310)
Cash flow from Financing Activities	792	(3,401)	326	245
Chg. in Cash & Bank balance	421	(1,689)	1,605	1,701

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	37.8	9.4	(22.8)	2.7
Cash EPS	37.8	(17.6)	(22.8)	2.7
Dividend per share (DPS)	91.6	155.5	130.0	150.5
Book Value per share (BV)	12.5	20.0	25.0	25.0
OCF per share	243.1	206.6	171.3	161.5
FCF per share	102.4	153.2	195.9	188.3
Growth (%)				
Net Sales	13.4	0.0	(8.4)	11.1
EBITDA	(18.7)	66.1	(16.3)	19.4
PAT	(38.0)	(75.2)	NM	NM
Valuation Ratios (x)				
P/E	74.1	299.0	(122.7)	1,026
P/BV	11.5	13.6	16.3	17.3
EV / EBITDA	24.1	16.7	19.6	16.1
EV / Sales	2.2	2.5	2.7	2.4
Operating Ratio				
Employee cost / Sales (%)	22.0	23.1	24.5	24.1
Effective Tax Rate (%)	33.1	11.0	25.2	25.2
Net D/E Ratio (x)	0.4	2.6	2.7	2.5
OCF yield (%)	5.0	7.4	9.5	9.1
FCF yield (%)	-0.9	3.4	2.3	2.6
Return/Profitability Ratio (%)				
EBITDA Margins	9.0	14.9	13.7	14.7
Net Income Margins	2.8	0.7	-1.9	0.2
Return on Equity (RoE)	15.5	4.5	-13.3	1.7
Return on Capital employed (RoCE)	16.4	15.3	4.9	11.7

Source: Company data, I-Sec research

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