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Q1FY21 result review
and reco change

Logistics

Target price: Rs1,746

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 3.5	↓ 3.3
EBITDA	↓ 3.4	↓ 3.4
PAT	↓ NM	↓ 89.3

Target price revision

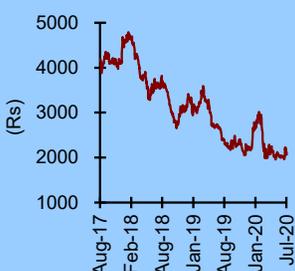
Rs1,746 from Rs1944

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

Downgrade from Hold

Weakness in operating metrics to persist

Rs2,066

Blue Dart Express (BDE) has reported lower-than-expected earnings in Q1FY21. Standalone EBITDA loss came in at Rs1,182mn against expected EBITDA loss of Rs38mn. Consolidated EBITDA loss was Rs425mn against Rs365mn expected EBITDA. Standalone gross margin contracted to 16% from 28% QoQ and 34% YoY. To note, the compression in gross margin is post Ind-AS 116 relief on rentals. The cost of sustaining five aircraft bears on margin and profitability in periods of sharp revenue decline like Q1FY21 (topline declined by 47% YoY). Management highlighted: i) Majority of Q1 business has been conducted in June, '20 ii) July, '20 has seen a significant improvement vis-à-vis Q1, though more on B2C side than B2B side and iii) volumes in Q1FY21 were not completely comparable YoY, as many charter services ran given disruption of B2B services. We downgrade BDE to SELL from HOLD with a revised target price of Rs1,746/share (earlier Rs1,944/share).

- ▶ **While BDE was trying to implement cost rationalisation, Q1FY21 highlighted further weaknesses.** Gross margin (standalone) disappointment in Q1FY21, despite Ind-AS 116 adjustment of last year, highlights the heavy operating leverage of BDE. Our base case margin assumptions factor in a consistent 10% p.a. volume growth in air cargo. *What if*, volume growth disappoints, given i) increase belly cargo of commercial airlines and ii) steady loss of share to road express.
- ▶ **Management hints at no improvement in prices over Q1/near term.** BDE has mentioned that it has witnessed significant opportunity in international and domestic charter – palletised capacity for carriage of urgent and large volumes to multiple airports in India and cross border. However, there is little scope for increase in prices given the current demand–supply scenario.
- ▶ **Drop in gross margin vis-à-vis road express player like TCI Express highlights the relative business moat.** While an asset-light road express player like TCI Express could improve gross margin despite significant volume weakness, the same for BDE has dropped materially – more to do with acceptability of the product at the offered price points in our view. Even rail players (EXIM container) have fared better than BDE in the current quarter.
- ▶ **We downgrade BDE to SELL from HOLD.** We have been working with 10% p.a. volume growth scenario for BDE's air freight, which also dictated our margin assumptions for the business. We introduce another scenario of 3% volume growth over the foreseeable future, given the current competitive dynamics and market scenario. The weighted average target price of those two scenarios comes to Rs1,746/share. Downgrade to SELL.

Market Cap	Rs49bn/US\$656mn	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)	3014/1959	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)	54.7	220.6	NM	757.2
Daily Volume (US\$'000)	410	CEPS (Rs)	91.6	155.5	130.0	150.5
Absolute Return 3m (%)	(7.5)	EV/E (x)	18.0	13.0	15.2	12.4
Absolute Return 12m (%)	(13.9)	Dividend Yield	0.5	0.7	0.9	0.9
Sensex Return 3m (%)	12.2	RoCE (%)	16.4	15.3	4.9	11.7
Sensex Return 12m (%)	1.5	RoE (%)	15.5	4.5	(13.3)	1.7

Research Analyst:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

Table 1: Q1FY21 result review (standalone)*(Rs mn)*

	Q1FY21	Q1FY20	Chg. YoY (%)	Q4FY20	Chg. QoQ (%)
Net income from operations	4,142	7,866	(47.3)	7,241	(42.8)
Total income from operations	4,142	7,866	(47.3)	7,241	(42.8)
Operating expenses	3,474	5,301	(34.5)	5,225	(33.5)
Gross Margin	668	2,564	(73.9)	2,017	(66.9)
Gross Margin (%)	16.1	32.6		27.8	
Employee wages	1,361	1,464	(7.0)	1,342	1.4
Other expenses	489	655	(25.3)	518	(5.6)
Total expenses	5,324	7,420	(28.2)	7,085	(24.9)
EBITDA	(1,182)	446	NM	157	NM
EBITDA Margin (%)	(28.5)	5.7		2.2	
Depreciation	428	338	26.7	437	(2.1)
Other Income	22	43	(49.3)	25	(12.4)
Finance Cost	75	83	(9.7)	79	(4.7)
PBT	(1,663)	69	NM	(333)	NM
Tax	(383)	23	NM	(95)	NM
PAT	(1,280)	46	NM	(238)	NM

Source: Company data, I-Sec research

Table 2: Q1FY21 result review (consolidated)*(Rs mn)*

	Q1FY21	Q1FY20	Chg. YoY (%)	Q4FY20	Chg. QoQ (%)
Net income from operations	4,162	7,888	(47.2)	7,134	(41.7)
Total income from operations	4,162	7,888	(47.2)	7,134	(41.7)
Operating expenses	2,221	4,079	(45.6)	3,580	(38.0)
Gross Margin	1,941	3,809	(49.0)	3,554	(45.4)
Gross Margin (%)	46.6	48.3		49.8	
Employee wages	1,723	1,859	(7.3)	1,861	(7.4)
Other expenses	643	816	(21.2)	686	(6.2)
Total expenses	4,587	6,754	(32.1)	6,127	(25.1)
EBITDA	(425)	1,134	(137.5)	1,007	(142.2)
EBITDA Margin (%)	(10.2)	14.4		14.1	
Depreciation	955	806	18.6	884	8.1
Other Income	27	59	(55.0)	34	(20.5)
Finance Cost	278	297	(6.4)	289	(3.6)
PBT	(1,632)	90	NM	(132)	NM
Tax	(374)	31	NM	(30)	NM
PAT	(1,258)	60	NM	(101)	NM

Source: Company data, I-Sec research

Change in earnings

We have further reduced our FY21E/FY22E earnings for BDE. We have also reduced our cost estimates to a reasonable minimum and assumed that the company utilises most of its cost levers. It is becoming increasingly apparent that there is a lack of economic attractiveness of air express package in a cost-sensitive environment. Also, in an excess supply scenario created by several schedules run by commercial airlines, continued margin pressures cannot be ruled out due to belly cargo capacities of those airlines.

Table 3: Earnings change (consolidated)

<i>(Rs mn)</i>	New		Old		% Chg	
	FY21E	FY22e	FY21E	FY22e	FY21E	FY22e
Sales	29,074	32,301	30,132	33,420	(3.5)	(3.3)
EBITDA	3,971	4,742	4,135	4,911	(4.0)	(3.4)
PAT'	(542)	65	(238)	604	NM	(89.3)

Source: Company data, I-Sec research

Downgrade to SELL with a target price of Rs1,746/share

We downgrade Blue Dart to SELL with a revised target price of Rs1,746/share. (earlier Rs 1944/share) We have introduced a lower volume estimate scenario, assuming 3% p.a. volume growth scenario in the foreseeable future. We have also further reduced capex in this scenario, as we don't see any aircraft addition in foreseeable future. Employee cost assumptions are also different in both the scenarios.

Sharp rebound expected in FY22E post the reset remains the key risk to our estimates. Margin trajectory remains a crucial monitorable and a key risk to our call.

Table 4: 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 5: 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

Table 6: DCF valuation of Blue Dart Express (old)

(Rs mn)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	995	1,966	2,838	2,921	3,256	3,786
NOPAT	4,584	4,416	4,892	5,338	5,827	6,462
Capex	(1,759)	(1,560)	(1,560)	(1,560)	(1,560)	(1,560)
Change in WC	403	(225)	(121)	(88)	(141)	(178)
FCFF	3,228	2,630	3,211	3,690	4,126	4,724
Terminal value						69,508
Total	3,228	2,630	3,211	3,690	4,126	74,232
NPV of FCFF	56,728					
Net debt	10,531					
NPV of FCFE	46,197					
Value per share	1,944					

Source: Company data, I-Sec research

Table 7: Assumptions (new) – 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 8: Assumptions (new) – 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

Table 9: Assumptions (old)

Growth (%)	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Tonnage	7.7	8.7	7.0	0	(5)	10.0	10.0	10.0	10.0	10.0
Realisation/kg	-2.3	-4.2	6.0		0.5	0.8	-	-	-0.7	-0.3

Source: Company data, I-Sec research

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

Financial summary (consolidated) (scenario 2)

Table 10: 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 11: 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 12: 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 13: 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	54.7	220.6	NM	757.2
P/BV	8.5	10.0	12.1	12.8
EV / EBITDA	18.0	13.0	15.2	12.4
EV / Sales	1.6	1.9	2.1	1.8
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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