

**Research report as on  
20-09-22  
CMP : 8602  
Market Capitalization :  
20,356 Cr**

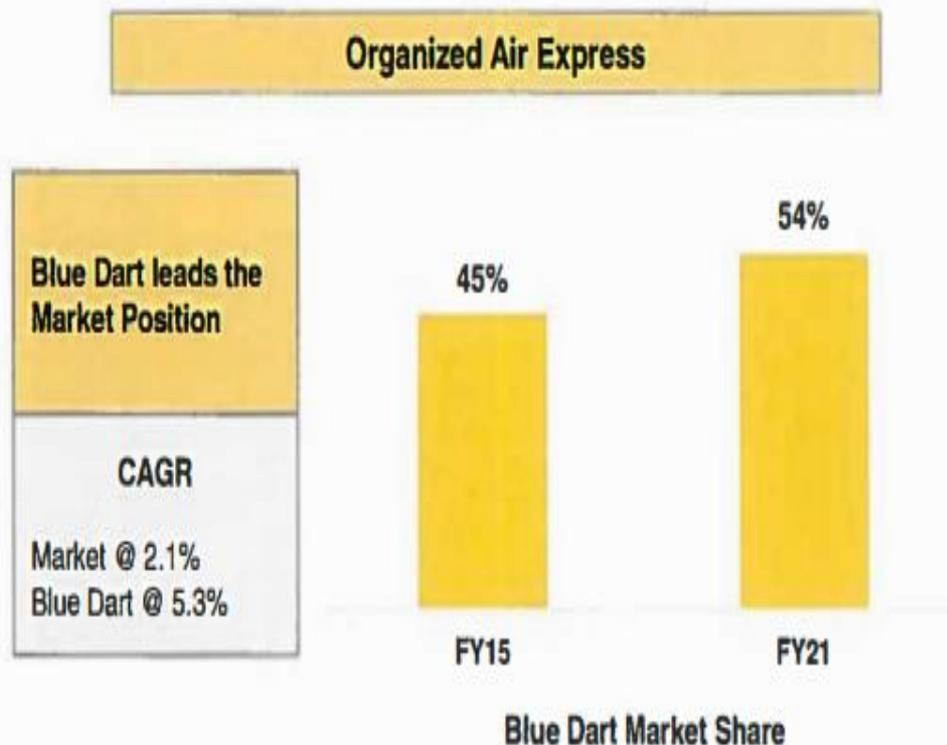
**PEE AAR SECURITIES LTD.**

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# SOUTH ASIA'S LEADING COURIER AND INTEGRATED AIR EXPRESS PACKAGE DISTRIBUTION COMPANY

**Undisputed Leader in Organized Air Express**  
Blue Dart Express Limited (Blue Dart) is an Indian logistics company that provides courier delivery services. It is engaged in transportation and door to door distribution of time-sensitive shipments, through a network of integrated ground and air transportation. The company commands a leadership position in Indian courier industry. **Blue Dart is the undisputed leader in organized air express business with the market share of 54% and has around 16% share in the land courier industry..** The company benefits from first mover advantage together with an owned fleet of aircraft, high service standards, pan-India presence and long-term tie-ups with corporates. It has been ahead of its competitors in deploying advanced technology, which help its clients to track their cargo with great preciseness. Its competitive edge over existing domestic players and new entrants is its fleet of six aircraft, flotilla of 22,336 vehicles as well as 2173 facilities/hubs covers more than 35,000 locations. It remains unmatched in terms of the first mile and last mile connectivity in India.

## Clear market leadership in Organized Air Express



Blue Dart has been increasing its market share in Organized Air Express

# COMPANY HISTORY

- Started Operations in 1983 by three Indian entrepreneurs as partnership firm, later converted into limited company.
- Maiden public issue and listing in 1994
- 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 SEBI's requirements for promoter holding in public listed companies, DP DHL reduced its shareholding to 75% through an offer for sale (OFS).
- Blue Dart Aviation Ltd and Concorde Air logistics Ltd. are wholly owned subsidiary companies
- Operates six Boeing757· 200 Aircrafts during night across seven metro cities with capacity of 500 tons per night · first only cargo airline in India
- Asset light model · {Three Aircrafts are on lease, Three owned by BDA), Trucks and facilities are on rentals
- Apart from Air, the Company launched Ground services in 2008
- E-Commerce services were launched in 2009/2010



# SERVICES

**Domestic Priority day-definite and time-definite services:** It enables deliveries at predefined times for critical shipments such as passports, tenders, original papers/certificates, etc. under 32kgs per package.

**Industry-specific services:** Temperature Controlled Logistics products, tailored specifically for customers in the Life Sciences & Healthcare sector, various types of thermal packaging etc.

Express delivery services are used for various products, including documents like letters, applications, cheque books, credit cards, trade papers and non-documents like electronic products, machine spare parts, trade samples, equipments and e-commerce parcels.

DHL Import Express is a unique single window importing service that takes care of all importing needs by offering door-to-door convenience services.

Unlike its private competitors, Blue Dart is a largely debt free company, which continues to strive for higher profitability by providing services to its customers, which includes greater investment in technology, digitisation (contactless delivery, route optimisation, customer mobile app, etc). Widespread IT network and initiatives such as 100% digitised cash collection, would help the company win back its lost market share from private players, which continue to see higher stress in cash flow management, inflated labour costs and other administrative expenses.

Blue Dart has been a beneficiary of flight to quality trend post Q1, which resulted in higher tonnage growth, backed by greater digital connect with customers and focus on servicing bigger customers and brands.

# LOGISTICS SECTOR

India is the fifth largest economy in the world. If it has to move fast to be among the three largest economies and join the league of developed nations, it has to aim to be among the top 10 in the Logistics Performance Index (LPI) by 2030. It has to match the pace of South Korea. Effective delivery services are key in the supply chain due to the unimaginable competition and varying customer demands.

The airways share accounts for less than 2% of the total. The materials which are carried by the air for cargo movement are mostly items which are time sensitive in nature like Pharmaceuticals, Healthcare, Electronics, wireless telephony, and Automotive Spares etc apart from horticulture and perishable. For non-time sensitive cargo movement of goods, airways are not preferred as it is expensive when compared to other modes of transport. It is time to give wings to air logistics and drastically improve the transport of high-value and perishable items.

# E-COMMERCE

The increasing consumer preference for shopping online through various e-commerce portals is also providing a boost to market growth.

E-commerce is evolving as a major growth driver for the entire logistics industry in India. On Account of growing number of smartphone users, higher internet penetration, preference for shopping online over in-store purchase, etc. have boosted the growth in e-commerce industry. The customers of e-commerce players demand on-time delivery, real-time tracking, reverse pickup/exchanges, different types of payments, among others.

Blue Dart provides the most efficient solutions with its Dart Plus & Speed trucking, 24x7 shipment visibility, same day and next day delivery options, open and closed reverse pick-ups, 15+ payment options, among others to its e-commerce clients. Due to covid-19 pandemic, there is a shift towards online purchase and digital payment and this trend will aid Blue Dart to grow its business and contribute towards its growth.



# Blue Dart's leadership in India

Blue Dart is a premium market leader in India

## Key Differentiators

- 1 Own Aviation Network
- 2 Market Leading Transit Times
- 3 Reliability & High Service Quality
- 4 Extensive Reach & Network
- 5 Best – In – Class Technology
- 6 Strong Brand Equity & Saliency
- 7 Responsiveness to Customer
- 8 Passionate & Committed Team
- 9 Pioneer & Innovator
- 10 Strong financials and "Zero Debt" Company

# BLUE DART NETWORK IS THE KEY COMPETITIVE DIFFERENTIATOR

- The Co has an extensive **network covering 35,000+ locations across India and servicing more than 220 countries and territories** worldwide through a sales alliance (signed in October 2002) with DP DHL. For its international courier service, the Co uses DP DHL's international network. It operates its own fleet of aircraft. Currently, the company, through its wholly-owned subsidiary, **operates 6 Boeing 757- 200 freighter aircraft, of which 3 are owned and 3 are sourced on a lease basis from DHL.**
- Extensive reach Optimized flight scheduling facilitating late pick-ups and early deliveries
- Market leading transit times Superior control over operations resulting in higher service reliability.

Blue Dart is looking for its next round of expansion, evaluating bigger aircraft than it has ever had in its fleet, increasing charter operations to China and Vietnam, and building gateways in smaller towns. The company, which has operational bases or gateways in seven cities in India, is for the first time looking to set up such facilities in smaller cities like Guwahati, Coimbatore and Kochi to operate scheduled air cargo services there.

The express logistics company currently has a fleet of eight freighter planes — **six** Boeing 757s, which will be phased out in a few years, and two Boeing 737-800s. It will add two 737-800s priced at Rs 360 crore by the end of this year

# TECHNOLOGY INNOVATIONS

Accelerating impact of process technology and automation

- Drone based last mile deliveries
- AI / ML solutions built on Data to drive business decisions
- Driving efficiencies through Automation
- Fast track implementation of digital solutions

It uses technology to enhance customer interface together with synergizing internal processes. State-of-the-art technology like weight dimension labelling (WDL) for accurate weight measurement, GPS for real time shipment visibility and radio frequency identification (RFID) help it to ensure speed, safety and accuracy.

## **Drone-Trials**

The company has successfully commenced Visual Line of Sight trials of drone delivery in Hyderabad under the “Medicine from Sky” project of the Telangana Government in September 2021. Indian drone delivery start-up firm Skye Air Mobility which is a part of the consortium for Government of Telangana "Medicines from the sky" Project will conduct the majority of drone flights. Skye Air has joined hands with BlueDart Express to provide drone based delivery and drone flights to conduct these trials.

# KEY RISKS

- **Increase in international crude oil prices / INR depreciation**

Fuel forms a substantial portion of expenses for Blue Dart Aviation, which are directly passed on to BDE. A significant increase can impact margin performance.

Q3FY21 witnessed ~20% YoY revenue growth on account of volume growth and improved mix. Blue Dart adjusts its prices annually, taking into account inflation, currency dynamics, fluctuations in fuel costs and other rising regulatory and mandatory costs.

Effective January 2021, Blue Dart has increased average shipment price by 9.6% which increased expectation of further profitability. The higher yield along with conversion of two leased aircrafts to owned ones is expected to aid in margin improvement.

- **Competition from new entrants**

MNCs like FedEx and UPS, with their international best practices, are expanding their presence in India. This could pose a risk to BDE's competitive positioning.

- **Shift from physical documents to e-documents poses a risk**

Documents constitute 35% of BDE's revenue. Though a substantial shift from physical documents to e-documents has already occurred, any incremental shift can impact growth outlook.

# GOVERNMENT POLICIES

Regulations liberalization and simplification

- National Logistics Policy (NLP) : The policy aims to achieve, among others, ‘quick last-mile delivery, end transport-related challenges, save time and money of manufacturers, and prevent wastage of agro-products. The end result is significant time and the cost reduction.”
- NLP aims to reduce the cost of logistics from 14-18 percent of GDP to global best practices of 8 percent by 2030. Countries like the US, South Korea, Singapore, and certain European nations have such a low logistics cost-to-GDP ratio.
- Gati Shakti Master Plan: To promote multi-modal connectivity for seamless movement of people, goods and services
- Make in India: To promote manufacturing and assembly in India. This initiative also provides industrial clusters along the key logistic routes



# Subsidiaries

The company has two wholly owned subsidiaries, namely Blue Dart Aviation Limited and Concorde Air Logistics Limited.

**Blue Dart Aviation the only licensee for cargo aviation in India.**

In 2015 Blue Dart Express acquired additional 21% stake into Blue Dart Aviation Limited (BDAL) and Company holds 70% stake into BDAL

Blue Dart Aviation is India's first and only scheduled cargo airline. Acquiring a license for operating a cargo airline is a significant entry barrier. Flying its own aircraft gives BDE a competitive edge over its peers since it is in a better position to deliver consignments on time, given secured cargo space and discipline in schedules (load/unload time rigid at 30 minutes). Other air express players have to rely on space availability of passenger airlines, where passenger luggage has priority over cargo. This results in space constraints and time delays.

## Post covid recovery

QoQ BlueDart illustrated momentum towards higher revenue growth i.e. Q1, Q2 and Q3 resulted in -47%, 10% and 21% growth, respectively. Higher contribution from segments such as e-commerce, pharmaceuticals, consumer electronics, etc, played a crucial role for the healthy uptick in revenue performance. Air freight also continued to remain a beneficiary of the changed dynamics of constrained belly cargo space (expected to remain-so in the near term). The company has also hiked its shipment charges by 9.6% from January 1 onwards to adjust annual inflation, fuel price, currency etc.



# FINANCIALS

₹ in Mn

Particulars	2021-22					2022-23
	Q1	Q2	Q3	Q4	Year	Q1
	(Apr-Jun)	(Jul-Sep)	(Oct-Dec)	(Jan-Mar)	(Apr-Mar)	(Apr-Jun)
Revenue from operations	8,662	11,236	12,548	11,659	44,105	12,933
EBITDA	1,657	2,455	2,880	2,954	9,946	2,740
Margin	18.98%	21.73%	22.70%	25.26%	22.40%	21.07%
EBT	416	1,220	1,654	1,833	5,123	1,590
Margin	4.77%	10.80%	13.03%	15.67%	11.53%	12.23%
Tax Expense	104	315	420	463	1,301	402
EAT	313	906	1,234	1,370	3,822	1,188
Margin	3.58%	8.01%	9.72%	11.71%	8.61%	9.14%
EPS (in ₹)	13.18	38.16	52.01	57.73	161.08	50.06

EBITDA / EBT / EAT are after exceptional items

# FINANCIAL ANALYSIS

- Blue Dart Express posted 34 per cent revenue growth in 2021-22, assisted by 30 per cent growth in volumes; the rest came from higher realisations
- Operating income during the year rose 34.1% on a year-on-year (YoY) basis.
- The company's operating profit increased by 46.5% YoY during the fiscal. Operating profit margins witnessed a fall and down at 21.8% in FY22 as against 20.0% in FY21.
- Depreciation charges decreased by 8.1% and finance costs decreased by 21.6% YoY, respectively.
- Other income grew by 35.1% YoY.
- Net profit for the year grew by 275.4% YoY.
- Net profit margins during the year grew from 3.1% in FY21 to 8.7% in FY22.

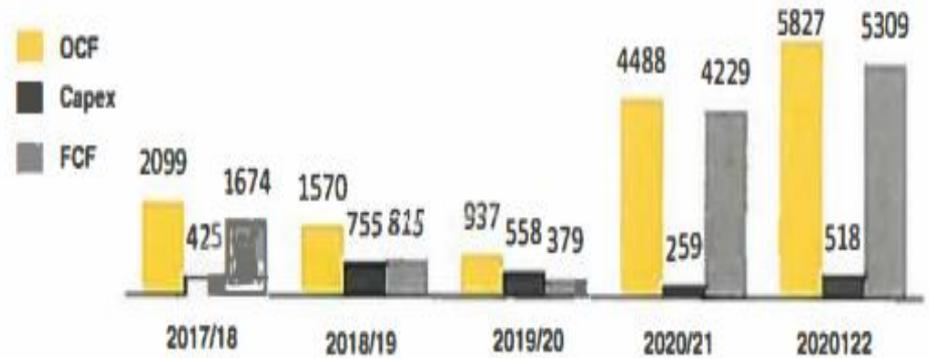


## Consistent revenue growth

### Revenue and Profitability



### Consistent cash flow generation and growth investment



# KEY RATIOS

- **Interest Coverage Ratio:** The company's interest coverage ratio improved and stood at 2.3x during FY21, from 0.7x during FY20. The interest coverage ratio of a company states how easily a company can pay its interest expense on outstanding debt. A higher ratio is preferable.
- Company has reduced **debt**.
- Company has delivered good **profit growth of 23.6% CAGR** over last 5 years
- **Return on Equity (ROE):** The ROE for the company improved and stood at 17.2% during FY21, from -8.5% during FY21. The ROE measures the ability of a firm to generate profits from its shareholders capital in the company.

Return on Equity	
10 Years:	29%
5 Years:	28%
3 Years:	31%
Last Year:	55%

Compounded Profit Growth	
10 Years:	13%
5 Years:	24%
3 Years:	65%
TTM:	78%



# KEY RATIOS

Return on Equity	
10 Years:	29%
5 Years:	21%
3 Years:	20%
Last Year:	31%

**Return on Capital Employed (ROCE):** The ROCE for the company improved and stood at 31% during FY22, from 17% during FY21. The ROCE measures the ability of a firm to generate profits from its total capital (shareholder capital plus debt capital) employed in the company.

Thus, **Blue Dart Express has an ROCE of 31%**. That's a fantastic return and not only that, it outpaces the average of 17% earned by companies in a similar industry. A growing *return* on capital employed (ROCE) and secondly, an increasing *amount* of capital employed. This shows us that it's a compounding machine, able to continually reinvest its earnings back into the business and generate higher returns.



# CONCLUSION

It has been a compounder in the past. Good to hold for long-term. No upside visible in share in the near-term.

Blue Dart's strategy to have a presence across segments--from express logistics to air, surface logistics to e-commerce--has helped it gain market leadership.

- Extensive network
- Blue dart Logistics business receive the highest order values from direct corporate tie-ups.
- Only player with proprietary aviation network
- License for operating a cargo airline is a significant entry barrier.
- Unlike its competitors, BDE promises strict delivery timelines, making it the logistics partner of choice for time-sensitive cargo.
- DHL, BDE's parent and 75% shareholder, is the world's largest logistics player.
- The air express industry is likely to witness 12.5% CAGR and being the market leader, BDE would be a key beneficiary.