

## Q3FY21 result review

## Logistics

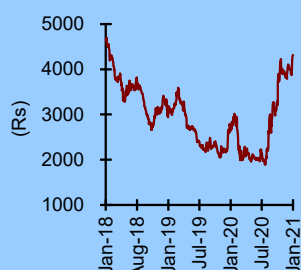
Target price: Rs3,130

## Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	75.0	75.0	75.0
Institutional investors	13.5	13.5	13.5
MFs and other	3.1	3.1	3.2
FIs/ Banks	2.6	0.0	0.0
Insurance Cos.	5.4	8.8	8.5
FII's	2.4	1.6	1.8
Others	11.5	11.5	11.5

Source: CMIE

## Price chart



## Blue Dart Express

SELL

Maintained

Rs4,169

## The bulge continues

Blue Dart Express' (BDE) consolidated on the yield gains achieved in Q2FY21 (driven by limited belly cargo capacity) and enjoyed better mix with more B2C air express cargo. The same resulted in ~ 20%YoY revenue growth in Q3FY21 and nearly helped maintain margin performance of last quarter (Q2FY21). The performance can be attributed to increased ecommerce, consumer electronics sales. Continued B2B air express resilience (IT, pharma, medical equipments) also helped. Normalisation of pent-up consumer spending (ecommerce) and impending increasing competition from increased belly cargo of domestic freighters, rail (new competition) as well as road makes us less confident on the volume or yield thesis. The underlying competitive dynamics of air express in a price-sensitive market remain unchanged. Earnings bulge helps discounting of the best-case scenario. Maintain SELL.

- **20% YoY revenue growth as (apparently) more ecommerce shipments move to air. Improved mix (higher percentage of air express) rather than only volume growth** was the key to achieve an impressive topline performance. Price hike announced (9.6% from Jan, '21) also increases expectation of further profitability improvement in FY22E. However, sustainability of a 40% gross margin scenario remains unclear. We see road players becoming more active; we also see significant increase in belly cargo capacity of domestic carriers and rail emerging as a new competitor – at substantially lower price points. Also, the nature of yield and volume improvement is peculiar to FY21E and should not be extrapolated going forward.
- **To capture sustainable market share through entry into road express would require much more focus on costs.** While employee costs have been moderated to 15% of revenues over Q2/Q3FY21, the same can be sustainably controlled through increased market share in road express – BDE's premium pricing in the segment will be increasingly challenged by rail if not road. Higher yield from Jan, '21 and conversion of two leased aircrafts to owned ones will help maintain/improve the margin trajectory in Q4FY21, thereby extending the earnings bulge for some more time.
- **Maintain SELL.** 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. Our target price is the weighted average of: i) base case scenario (10% volume growth with a lower yield), and ii) low-volume scenario (3% volume growth with controlled increase in prices). Maintain **SELL** with a target price of Rs3,130/share.

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Market Cap	Rs99bn/US\$1.4bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	BLDT.BO / BDE IN	Revenue (Rs mn)	31,751	31,400	32,813	36,455
Shares Outstanding (mn)	23.7	EBITDA(Rs mn)	4,742	6,154	5,387	6,504
52-week Range (Rs)	4313/1886	Net Income (Rs mn)	223	1,091	547	1,291
Free Float (%)	25.0	EPS (Rs)	9.4	45.9	23.0	54.3
FII (%)	1.8	P/E (x)	445.2	90.8	180.9	76.7
Daily Volume (US\$'000)	2,497	CEPS (Rs)	155.5	198.7	170.8	198.7
Absolute Return 3m (%)	30.2	EV/E (x)	23.6	17.7	19.8	16.0
Absolute Return 12m (%)	58.1	Dividend Yield	0.7	0.9	0.9	0.9
Sensex Return 3m (%)	17.5	RoCE (%)	15.3	22.5	14.6	19.4
Sensex Return 12m (%)	15.8	RoE (%)	4.5	19.1	9.2	18.6

**Table 1: Q3FY21 result review (standalone)**

(Rs mn)

	Q3FY21	Q3FY20	Chg YoY (%)	Q2FY21	Chg QoQ (%)
Net income from operations	10,349	8,556	21.0	8,644	19.7
<b>Total income from operations</b>	<b>10,349</b>	<b>8,556</b>	<b>21.0</b>	<b>8,644</b>	<b>19.7</b>
Operating expenses	6,284	5,741	9.5	5,207	20.7
<b>Gross Margin</b>	<b>4,066</b>	<b>2,816</b>	<b>44.4</b>	<b>3,437</b>	<b>18.3</b>
<b>Gross Margin (%)</b>	<b>39.3</b>	<b>32.9</b>		<b>39.8</b>	
Employee wages	1,579	1,467	7.6	1,385	14.1
Other expenses	752	679	10.8	577	30.4
<b>Total expenses</b>	<b>8,615</b>	<b>7,887</b>	<b>9.2</b>	<b>7,169</b>	<b>20.2</b>
<b>EBITDA</b>	<b>1,734</b>	<b>669</b>	<b>159.0</b>	<b>1,475</b>	<b>17.5</b>
<b>EBITDA Margin (%)</b>	<b>16.8</b>	<b>7.8</b>		<b>17.1</b>	
Depreciation	547	383	42.9	509	7.6
Other Income	24	34	(30.1)	19	21.8
Finance Cost	77	76	0.7	88	(12.6)
<b>PBT</b>	<b>1,133</b>	<b>243</b>	<b>365.5</b>	<b>898</b>	<b>26.2</b>
Tax	278	(67)	NM	142	<b>95.6</b>
<b>PAT</b>	<b>938</b>	<b>(331)</b>	<b>NM</b>	<b>414</b>	<b>126.6</b>

Source: Company data, I-Sec research

**Table 2: Q3FY21 result review (consolidated)**

(Rs mn)

	Q3FY21	Q3FY20	Chg YoY (%)	Q2FY21	Chg QoQ (%)
Net income from operations	10,371	8,579	20.9	8,666	19.7
<b>Total income from operations</b>	<b>10,371</b>	<b>8,579</b>	<b>20.9</b>	<b>8,666</b>	<b>19.7</b>
Operating expenses	4,876	4,402	10.8	3,871	26.0
<b>Gross Margin</b>	<b>5,495</b>	<b>4,177</b>	<b>31.5</b>	<b>4,795</b>	<b>14.6</b>
<b>Gross Margin (%)</b>	<b>53.0</b>	<b>48.7</b>		<b>55.3</b>	
Employee wages	2,015	1,867	7.9	1,788	12.7
Other expenses	961	891	7.9	721	33.3
<b>Total expenses</b>	<b>7,852</b>	<b>7,159</b>	<b>9.7</b>	<b>6,380</b>	<b>23.1</b>
<b>EBITDA</b>	<b>2,519</b>	<b>1,420</b>	<b>77.5</b>	<b>2,286</b>	<b>10.2</b>
<b>EBITDA Margin (%)</b>	<b>24.3</b>	<b>16.5</b>		<b>26.4</b>	
Depreciation	1,149	884	30.0	1,116	2.9
Other Income	56	19	196.8	47	19.0
Finance Cost	270	289	(6.4)	304	(11.0)
<b>PBT</b>	<b>1,156</b>	<b>266</b>	<b>334.7</b>	<b>912</b>	<b>26.6</b>
Tax	88	(56)	NM	147	<b>(40.5)</b>
<b>PAT</b>	<b>1,068</b>	<b>(319)</b>	<b>NM</b>	<b>423</b>	<b>152.3</b>

Source: Company data, I-Sec research

## Maintain SELL: Best-case scenario continues to get factored in

We maintain **SELL** on Blue Dart with a target price of Rs3,130/share. The target price is a weighted average of two scenarios. We continue to factor in a lower volume estimate scenario, assuming 3% p.a. volume growth in the near future. We also follow a reduced capex assumption in this scenario, as we do not see any aircraft addition in near future. Second scenario assumes 10% volume growth p.a. with a much lower yield.

Employee cost assumptions are also different in both the scenarios. There is no change in earnings.

DCF tenure is till FY30E with terminal growth assumptions at 2%.

### Key risks

Further increase in yield or maintaining yields in FY22E are key risks to our thesis (maintaining/increasing yields along with 10% volume growth). Also better than expected industry growth, better cost control and prolongation of the bulge are key additional risks to our thesis.

**Table 3: DCF valuation of Blue Dart Express (new) – scenario 1 (low growth)**

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
EBIT	2,541	2,412	2,934	4,337	5,434	6,057	6,588	7,146	7,644	8,162
NOPAT	5,513	5,220	5,467	5,510	5,649	5,927	6,248	6,582	7,051	7,535
Capex	(3,281)	(2,622)	(2,456)	(1,777)	(1,533)	(1,364)	(1,190)	(1,009)	(1,008)	(1,007)
Change in WC	142	(1)	(81)	(117)	(131)	(127)	(132)	(138)	(99)	(102)
FCFF	2,375	2,596	2,929	3,617	3,986	4,436	4,926	5,435	5,944	6,426
Terminal value										81,928
Total	2,375	2,596	2,929	3,617	3,986	4,436	4,926	5,435	5,944	88,354
NPV of FCFF	62,072									
Net debt	9,621									
NPV of FCFE	52,451									
<b>Value per share</b>	<b>2,208</b>									

Source: Company data, I-Sec research

**Table 4: DCF valuation of Blue Dart Express (new) – scenario 2 (10% p.a. growth)**

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
EBIT	2,523	1,877	3,075	5,158	7,283	9,060	10,905	12,967	15,165	17,623
NOPAT	5,518	4,915	5,729	6,312	7,193	8,339	9,662	11,141	12,820	14,687
Capex	(3,540)	(3,182)	(3,016)	(1,978)	(1,734)	(1,565)	(1,391)	(1,210)	(2,323)	(2,130)
Change in WC	142	33	(258)	(286)	(359)	(385)	(405)	(446)	(491)	(550)
FCFF	2,120	1,766	2,455	4,047	5,101	6,389	7,866	9,485	10,006	12,008
Terminal value										153,096
Total	2,120	1,766	2,455	4,047	5,101	6,389	7,866	9,485	10,006	165,104
NPV of FCFF	106,168									
Net debt	9,876									
NPV of FCFE	96,292									
<b>Value per share</b>	<b>4,053</b>									

Source: Company data, I-Sec research

## Financial summary (consolidated) (scenario 2)

Table 5: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Revenue from operations	31,751	31,400	32,813	36,455
Direct Expenses	16,561	15,746	17,142	18,704
<b>Gross Margin</b>	<b>15,191</b>	<b>15,654</b>	<b>15,671</b>	<b>17,751</b>
% margins	47.8%	49.9%	47.8%	48.7%
Other operating expenses	10,449	9,501	10,283	11,247
<b>EBITDA</b>	<b>4,742</b>	<b>6,154</b>	<b>5,387</b>	<b>6,504</b>
% margins	14.9%	19.6%	16.4%	17.8%
Other Income	155	165	165	203
Depreciation & Amortisation	3,473	3,631	3,511	3,430
Gross Interest	1,174	1,229	1,310	1,551
<b>Profit before tax</b>	<b>250</b>	<b>1,459</b>	<b>732</b>	<b>1,726</b>
Less: Taxes	27	368	184	435
<b>Net Income (Adjusted)</b>	<b>223</b>	<b>1,091</b>	<b>547</b>	<b>1,291</b>
<b>Net Income (Reported)</b>	<b>(419)</b>	<b>749</b>	<b>547</b>	<b>1,291</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	7,809	10,483	13,342	17,029
of which cash & cash eqv.	1,000	4,105	6,735	9,837
Total Current Liabilities & Provisions	6,350	6,061	6,323	6,650
<b>Net Current Assets</b>	<b>1,460</b>	<b>4,422</b>	<b>7,019</b>	<b>10,379</b>
Net Fixed Assets	6,617	6,526	6,198	5,784
Intangible assets	990	990	990	990
Capital Work-in-Progress	160	160	160	160
Other non-current assets	1,123	1,123	1,123	1,123
<b>Total Assets</b>	<b>19,413</b>	<b>20,504</b>	<b>21,151</b>	<b>22,642</b>
<b>Liabilities</b>				
Borrowings	4,375	6,226	8,077	9,929
Deferred Tax Liability	(645)	(645)	(645)	(645)
Other long term liabilities	1,466	1,466	1,466	1,466
Equity Share Capital	238	238	238	238
Reserves & Surplus	4,671	5,465	5,716	6,710
<b>Net Worth</b>	<b>4,908</b>	<b>5,703</b>	<b>5,953</b>	<b>6,948</b>
<b>Total Liabilities</b>	<b>19,413</b>	<b>20,504</b>	<b>21,151</b>	<b>22,642</b>

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Net Profit before tax</b>	<b>(391)</b>	<b>1,459</b>	<b>732</b>	<b>1,726</b>
Depreciation	3,623	3,631	3,511	3,430
Non-Cash Adjustments	1,307	1,064	1,145	1,348
Working Capital Changes	(290)	142	33	(258)
Taxes Paid	(608)	(368)	(184)	(435)
<b>Operating Cash flow</b>	<b>3,641</b>	<b>5,928</b>	<b>5,236</b>	<b>5,811</b>
Capital Commitments	(1,990)	(3,540)	(3,182)	(3,016)
<b>Free Cash Flow</b>	<b>1,652</b>	<b>2,388</b>	<b>2,054</b>	<b>2,795</b>
Other investing cashflow	60	165	165	203
<b>Cash flow from Investing Activities</b>	<b>(1,929)</b>	<b>(3,375)</b>	<b>(3,017)</b>	<b>(2,813)</b>
Inc (Dec) in Borrowings	(2,593)	1,851	1,851	1,851
Dividend and dividend tax paid	(358)	(297)	(297)	(297)
Others	(451)	(1,229)	(1,310)	(1,551)
<b>Cash flow from Financing Activities</b>	<b>(3,401)</b>	<b>326</b>	<b>245</b>	<b>4</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(1,689)</b>	<b>2,879</b>	<b>2,464</b>	<b>3,002</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	9.4	45.9	23.0	54.3
Cash EPS	(17.6)	31.5	23.0	54.3
Dividend per share (DPS)	155.5	198.7	170.8	198.7
Book Value per share (BV)	20.0	25.0	25.0	25.0
OCF per share	206.6	240.0	250.6	292.4
FCF per share	153.2	249.5	220.4	244.6
	69.5	100.5	86.5	117.6
<b>Growth (%)</b>				
Net Sales				
EBITDA	0.0	(1.1)	4.5	11.1
PAT	66.1	29.8	(12.4)	20.7
	(75.2)	390.3	(49.8)	135.8
<b>Valuation Ratios (x)</b>				
P/E				
P/BV	445.2	90.8	181	77
EV / EBITDA	20.2	17.4	16.6	14.3
EV / Sales	23.6	17.7	19.8	16.0
	3.5	3.5	3.3	2.9
<b>Operating Ratios</b>				
Employee cost / Sales (%)	23.1	22.7	23.3	22.4
Effective Tax Rate (%)	11.0	25.2	25.2	25.2
Net D/E Ratio (x)	2.6	1.7	1.3	0.7
OCF yield (%)	3.7	6.0	5.3	5.9
FCF yield (%)	1.7	2.4	2.1	2.8
<b>Return/Profitability Ratios (%)</b>				
EBITDA Margins	14.9	19.6	16.4	17.8
Net Income Margins	0.7	3.5	1.7	3.5
Return on Equity (RoE)	4.5	19.1	9.2	18.6
RoCE	15.3	22.5	14.6	19.4

Source: Company data, I-Sec research

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