

Blue Dart Express Ltd

23 November, 2021

Reuters: BLDT.NS; Bloomberg: BDE IN

Strong demand amid pricing power drives earnings growth

We hosted the management of Blue Dart for an investor interaction as part of 11th year celebrations of Nirmal Bang Institutional Equities.

The company was confident of strong growth going forward due to (1) growth in the logistics industry (2) Increase in market share within the logistics industry.

Growth in the logistics industry is expected to be driven by (1) Strong growth in infrastructure development, which will reduce travel time (2) Govt's incentives to the manufacturing sector to attract global investments into India (3) Strong growth in e-commerce due to evolving buying patterns of Indian consumers and the advent of omni channels.

The increase in market share for Blue Dart despite premium pricing (approximately 25% above the competitors) is expected to be driven by unbeatable record in reliability and safety.

Revenue growth for the company is also expected to be driven by an increase in market share of e-commerce due to growing number of brands resorting to own websites. Also, the increase in demand from e-commerce is primarily coming from Tier 2 and Tier 3 cities where the in-house logistics companies of e-commerce players do not have much of a presence.

We maintain Buy with a revised target price TP Rs7,776 based on PER of 55x at the midpoint of FY23/24E earnings.

Revenue growth driven by 3-pronged strategy: In the recent interaction, the management sounded confident of sustaining strong growth going forward, driven primarily by (1) Strong and continued growth in e-commerce with shift in consumers' buying patterns due to growing comfort and convenience to purchase products online and increase in omni channels (2) Strong growth in the logistics industry, aided by Government's push for infrastructural development, incentives for 'Make in India', thus increasing manufacturing sector's growth in India (3) Resumption of documents with return of normalcy.

As per the management, ~70% of the revenue is being driven by air cargo and the rest by ground cargo. Currently, ~25% of the cargo is Documents and 20% is e-commerce. The company expects the continued strong demand in e-commerce to lead to enhanced share of e-commerce from the current level of 20% of revenue to 25% of revenue by the end of FY22.

The management stated that the overall logistics industry is expected to clock high double-digit growth while the air cargo business is expected to be in high single digits. Blue Dart expects to grow faster than the industry and increase market share in future due to its impeccable record of reliability and safety of cargo delivery, which has helped the company to maintain its premium pricing.

As per the management, BTB forms 67% of the ground cargo with BTC forming the balance 33%. The key sectors contributing to the demand include Electronics, Pharma, Auto Parts and Readymade Garments, among others.

E-commerce- double digit growth will aid revenue growth: As per the management, the strong growth in e-commerce is being driven by changing buying patterns of consumers. While growth in e-commerce in the past year was driven by compulsions of regulatory restrictions, there has been a growing propensity to purchase products from e-commerce platforms, especially from consumers in Tier 2 and Tier 3 cities. As per the management, future growth in e-commerce is expected to be very strong given that it forms only 3% of total sales in India compared to 15% of total sales in the western countries.

Further, many of the large retailers/brands have opened their own online marketplaces, which have led to increasing presence of omnichannels across the country and is one of the key growth areas for the company. The current large e-commerce players have their in-house express logistics companies but they are focused primarily in the metros whereas a large proportion of growth in demand is coming from Tier 2 and Tier 3 cities.

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues	31,744.0	31,751.3	32,881.3	35,554.1	43,400.6	49,848.4
YoY (%)	13.4%	0.0%	3.6%	8.1%	22.1%	14.9%
EBITDA	2,854.5	4,741.8	6,862.9	6,484.9	9,304.7	11,380.7
EBITDA Margin (%)	9.0%	14.9%	20.9%	18.2%	21.4%	22.8%
PAT	897.6	(418.6)	1,018.1	741.6	2,687.4	4,021.7
YoY (%)	-38.0%	-146.6%	343.2%	-27.2%	262.4%	49.6%
EPS (Rs)	37.8	(17.6)	42.9	31.3	113.3	169.5
RoE (%)	15.5	(8.5)	17.2	11.8	30.6	33.6
EV/EBITDA (x)	55.8	35.5	24.3	25.5	17.3	13.7
P/E (x)	174.2	NA	153.5	210.8	58.2	38.9

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Logistics

CMP: Rs6,588

Target Price: Rs7,776

Upside: 18%

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Key Data

Current Units O/S (man)	23.7
Mkt Cap (Rsbn/US\$bn)	156.2/2.1
52 Wk H / L (Rs)	7,275/3,709
Daily Vol. (3M NSE Avg.)	35,567

Price Performance (%)

	1 M	6 M	1 Yr
Blue Dart	5.1	10.5	64.0
Nifty Index	(5.4)	15.9	36.4

Source: Bloomberg

Growth in documents returning post covid: Business from transportation of documents had been under pressure due to covid-induced restrictions. Transportation of documents included exam papers, passports, cheque books etc. Since offices and educational institutions were shut, the volume of documents transported came under pressure. With the opening up of educational institutions and offices, the company is witnessing a sharp increase in the document business also.

Blue Dart's premium pricing sustains due to higher reliability and safety: Strong reliability and safety performance history has enabled Blue Dart to maintain premium pricing of 20-25% over its peers. Despite premium pricing, the company has grown its BTB business on ground travel from ~5% in FY2009 to 17% in FY2021.

The management reiterated that the growth in market share is primarily due to strong performance in terms of reliability and safety. It added that while other express logistics carriers have a reliability of 86%, Blue Dart has a reliability of 97% on Air and 96% on Ground. Further, while Blue Dart has a record of six sigma safety, other carriers have only 95-96%.

In the past two years, the company has taken a price hike of ~9.5% annually, which has sustained clearly, showing that the pricing power has returned to the company.

Strong balance sheet with asset light model: Net debt declined from Rs2,845mn in 4QFY21 to Rs662mn in 2QFY22. This has led to a decline in the net debt to equity ratio from 0.4x in 4QFY21 to 0.1x in 2QFY22. Historically, the company has had a low leverage as it has followed an asset light model.

Rationalisation of minimum wages will benefit Blue Dart in the short to medium term: The minimum wage bill expected to be implemented from 1st April, 2022 will lead to uniformity in minimum wages across India. While Blue Dart has already increased minimum wages paid to its employees, other logistics service providers are yet to increase wages. Post implementation of the minimum wages code, Blue Dart would have a near to medium term benefit in terms of profitability, relative to its peers, as other logistics players would need to increase their wage bills, implying lower profitability.

Maintain BUY with a TP of Rs7,776: We maintain Buy with a TP Rs7,776, implying an upside of 18% from CMP based on PER multiple of 55x midpoint of FY23/24E EPS.

Apart from valuation, we support our BUY view with the following catalysts (1) Annual pricing growth, which has sustained in the past two years despite strong competitive intensity (2) Strong demand growth from e-commerce (growing at more than 25% YoY) (3) Strong balance sheet with net debt to equity ratio of 0.1x (4) Asset light growth model, which has led to minimum risk to the balance sheet (5) Well-established pan-India distribution network across more than 14,000 pin codes in India (6) Established and loyal customer base (7) Well known brand with strong support from an experienced global parent (DHL).

Financial statement

Exhibit 1: Income statement

Y/E March (Rsmn)	FY20	FY21E	FY22E	FY23E	FY24E
Net sales	31,751	32,881	35,554	43,401	49,848
Growth YoY (%)	0.02%	3.56%	8.13%	22.07%	14.86%
Domestic network operating costs	9,518	9,033	10,480	12,985	15,134
International servicing charges	1,429	1,642	1,729	1,821	1,923
Aircraft Fuel	2,102	1,526	2,023	2,505	2,919
Aircraft and Engine Lease Rentals	68	9	9	11	12
Freight, Handling and Servicing	3,444	3,567	3,784	4,596	5,254
Employee Benefit Expenses	7,335	7,290	7,655	8,038	8,439
Other Expenses	3,114	2,952	3,390	4,140	4,787
EBITDA	4,742	6,863	6,485	9,305	11,381
EBITDA growth (%)	66.1%	44.7%	-5.5%	43.5%	22.3%
EBITDA margin (%)	14.9	20.9	18.2	21.4	22.8
Depreciation	3,473	4,300	4,717	5,184	5,684
EBIT	1,269	2,563	1,768	4,121	5,697
EBIT (%)	4.0	7.8	5.0	9.5	11.4
Interest expense	1,174	1,110	990	754	558
Other income	155	203	213	224	235
Others	(641)	(259)	-	-	-
Earnings before tax	(391)	1,398	991	3,591	5,374
Tax- total	27	380	249	904	1,353
Rate of tax (%)	(7.0)	27.2	25.2	25.2	25.2
Net profit	(419)	1,018	742	2,687	4,022
EPS (FD)	(17.64)	42.91	31.26	113.26	169.49
% growth	-67.1	24.9	89.8	54.8	27.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Balance sheet

Y/E March (Rsmn)	FY20	FY21E	FY22E	FY23E	FY24E
Equity Share capital	238	238	238	238	238
Reserves and surplus	4,671	5,682	6,068	8,533	11,748
Net worth	4,908	5,920	6,305	8,770	11,986
Minority Interest	-	-	-	-	-
Loans	12,986	13,435	12,338	9,049	4,269
Other Financial Liabilities:	50	35	38	41	44
Provisions	229	179	194	209	226
Other non-current liability	-	-	-	-	-
Total capital employed	18,173	19,569	18,874	18,069	16,524
Property, plant and equipment	16,830	15,899	13,682	11,298	8,614
Non Current Investments	-	-	-	-	-
Loans	-	-	-	-	-
Other non-current assets	2,365	2,272	2,454	2,650	2,862
Total non-current assets	19,195	18,171	16,135	13,948	11,476
Trade payables	4,010	5,094	4,432	5,389	6,206
Other current liabilities	2,939	2,967	2,521	2,665	4,866
Provisions (current)	1,286	1,345	1,453	1,569	1,694
Total current liabilities	8,235	9,406	8,406	9,623	12,766
Inventories	270	318	363	442	508
Trade receivables	5,282	5,179	5,500	6,713	7,711
Cash and bank balance	1,000	3,105	3,024	4,271	7,212
Loans and advances	8	0	0	0	0
Other current assets	653	2,201	2,257	2,318	2,383
Total current assets	7,213	10,804	11,144	13,744	17,814
Net current assets	(1,022)	1,398	2,739	4,120	5,048
Total capital employed	18,173	19,569	18,874	18,069	16,524

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY20	FY21E	FY22E	FY23E	FY24E
Profit after tax	(419)	1,018	742	2,687	4,022
Depreciation	3,473	4,300	4,717	5,184	5,684
Finance costs	1,174	1,110	990	754	558
Other income	(155)	(203)	(213)	(224)	(235)
Others	27	649	249	904	1,353
Working capital changes	(60)	(2,723)	(1,064)	(373)	(289)
Operating cash flow	4,040	4,150	5,421	8,931	11,092
Capital expenditure	(4,205)	(4,127)	(2,500)	(2,800)	(3,000)
Changes in non-current assets	(334)	93	(182)	(196)	(212)
Other income	155	203	213	224	235
Net cash after capex	(343)	319	2,952	6,159	8,115
Issue/(buyback of equity)	-	-	-	-	-
Proceeds/repayment of borrowings	(412)	650	150	(2,000)	(1,400)
Finance costs	(1,174)	(1,110)	(990)	(754)	(558)
Others	243	-	(2,375)	(2,355)	(3,428)
Cash flow from financing	(1,343)	(460)	(3,215)	(5,109)	(5,386)
Total cash generation	(1,686)	(140)	(263)	1,050	2,729
Opening cash balance	2,661	975	835	572	1,623

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

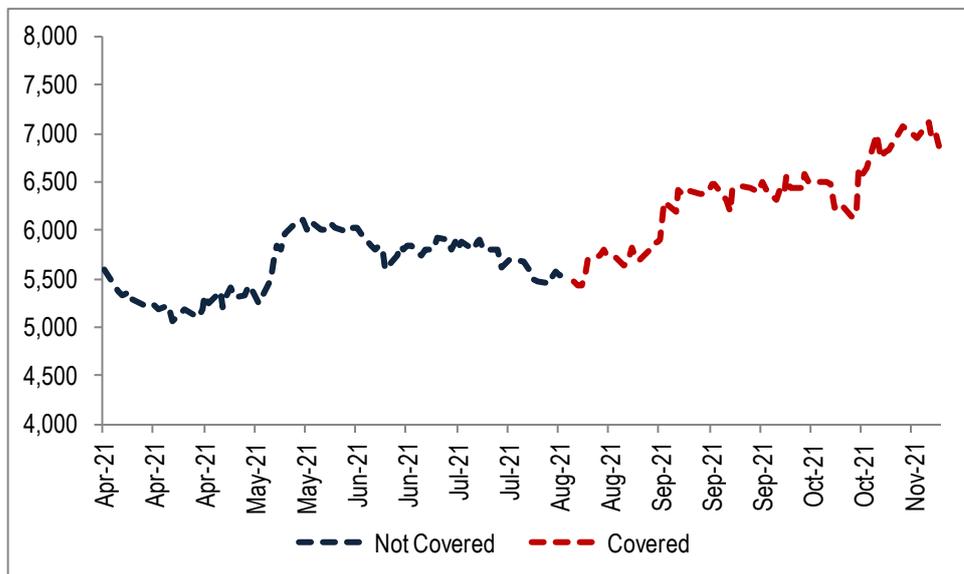
Y/E March	FY20	FY21E	FY22E	FY23E	FY24E
Profitability and return ratios					
EBITDA margin (%)	14.9	20.9	18.2	21.4	22.8
EBIT margin (%)	4.0	7.8	5.0	9.5	11.4
Net profit margin (%)	(1.3)	3.1	2.1	6.2	8.1
RoE (%)	(8.5)	17.2	11.8	30.6	33.6
RoCE (%)	7.1	13.2	9.5	23.1	35.0
Working capital & liquidity ratios					
Receivable (days)	60.7	57.5	56.5	56.5	56.5
Inventory (days)	5.9	7.4	7.4	7.4	7.4
Payable (days)	88.4	117.9	89.7	89.7	89.7
Current ratio (x)	0.9	1.1	1.3	1.4	1.4
Valuation ratios					
EV/sales (x)	5.3	5.1	4.7	3.7	3.1
EV/EBITDA (x)	35.5	24.3	25.5	17.3	13.7
P/E (x)	NA	153.5	210.8	58.2	38.9
P/BV (x)	31.8	26.4	24.8	17.8	13.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
09 August 2021	BUY	5,493	6,660
06 October 2021	BUY	6,393	7,776
1 November 2021	BUY	6,634	7,776
09 August 2021	BUY	5,493	6,660
1 November 2021	BUY	6,634	7,776
23 November 2021	BUY	6,588	7,776

Rating track graph



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