

**NOT
RATED**
BLUE DART EXPRESS

| Logistics

| 21 August 2019

Buffeted by headwinds

We recently met the management of Blue Dart Express (BDE). Below are the key takeaways.

- BDE remains one of the leading players in India's express logistics industry, with ~48%/15% market share in the air/surface express segments. The company operates 6 aircraft, 11,121 vehicles and 1,665 facilities/hubs across over 35,400 locations, as of FY19.
- The past three years have been difficult for BDE as multiple headwinds converged to dampen growth and profitability across segments. After rapid growth over FY09-FY15, the company's ecommerce logistics segment lost its sheen owing to the aggressive pricing strategy of PE-backed startups, and the new FDI policy for ecommerce. Its core air express segment also yielded market share to surface express, where BDE was a late entrant.
- Ill-timed expansion exacerbated matters. Buoyed by GST rollout, BDE executed two strategic initiatives since FY17 – expanded its reach to ~14,400 pin codes from 6,000 and focused on raising revenue contribution from SMEs and smaller towns. But in a tough demand climate, the added revenue from these initiatives was inadequate in the face of higher operating expenses, causing ~370bps EBITDA margin contraction over FY17-FY19.
- Management noted that the expansion drive is largely over and yearly capex of Rs 400mn-450mn is now earmarked for technological enhancements.
- BDE expects surface express to continue growing much faster than air over the next five years due to better road infrastructure and the steep cost difference (~4x higher for air). While air express will also grow, it is likely to be restricted to precious cargo and highly time-sensitive deliveries.
- After a weak Q1, BDE expects growth to remain tepid in the remainder of FY20, till the economy recovers. Management nonetheless remains confident of growing at 15-16% CAGR over the next five years if GDP growth scales back to 7.5-8%. This will be led by a larger presence in surface express, rising B2B share, higher SME penetration, and demand gravitating to the organised segment from unorganised, regional players.
- Higher revenue should augment EBITDA margins due to high operating leverage: 60-65% of BDE's costs are fixed in nature.

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Ticker/Price	BDE IN/Rs 2,275
Market cap	US\$ 758mn
Shares o/s	24mn
3M ADV	US\$ 0.01mn
52wk high/low	Rs 3,700/Rs 2,180
Promoter/FPI/DII	75%/5%/5%

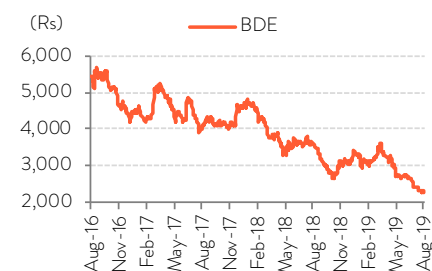
Source: NSE

CONSOLIDATED FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19A
Revenue (Rs mn)	26,895	27,992	31,744
Revenue growth (%)	4.9	4.1	13.4
EBITDA (Rs mn)	3,417	3,513	2,855
EBITDA margin (%)	12.7	12.5	9.0
Adj. net profit (Rs mn)	1,398	1,447	898
Adj. EPS (Rs)	58.9	60.9	37.8
Adj. EPS growth (%)	(29.0)	3.5	(38.0)
Adj. ROAE (%)	34.5	30.1	16.2
P/E (x)	38.7	37.4	60.2
EV/EBITDA (x)	17.0	16.5	20.3

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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