

RESEARCH
BOB Economics Research | August MPC Minutes

Focus on growth to continue

Blue Dart Express | NOT RATED

Buffeted by headwinds

SUMMARY
India Economics: August MPC Minutes

With economic activity continuing to decelerate since June policy meeting, RBI reduced policy rate by 35bps. MPC has kept room open for more reduction depending upon incoming data. A benign inflation outlook favours lower real rates. Given the backdrop of current cyclical slowdown, we believe there is room for another 40bps reduction in policy rates. However, focus will move to transmission, in particular, for new loans with external benchmark linked products ensuring lower lending rates to incentivize consumers/ firms to invest.

[Click here for the full report.](#)
Blue Dart Express

We recently met the management of Blue Dart Express (BDE). Key takeaways: (1) BDE remains one of the leading players in India's express logistics industry, with ~48%/15% market share in the air/surface express segments. (2) The past three years have been difficult as multiple headwinds converged to dampen growth. Ill-timed expansion exacerbated matters. (3) After a weak Q1, BDE expects growth to remain tepid in 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%.

[Click here for the full report.](#)
TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	175
TCS	Add	2,360
HPCL	Sell	200

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	195
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.56	(5bps)	(50bps)	(127bps)
India 10Y yield (%)	6.59	0bps	22bps	(124bps)
USD/INR	71.71	(0.4)	(4.2)	(2.7)
Brent Crude (US\$/bbl)	60.03	0.5	(3.9)	(17.3)
Dow	25,962	(0.7)	(4.4)	0.5
Shanghai	2,880	(0.1)	(1.5)	5.3
Sensex	37,328	(0.2)	(2.6)	(2.5)
India FII (US\$ mn)	19 Aug	MTD	CYTD	FYTD
FII-D	214.5	468.3	3,122.3	2,577.6
FII-E	(37.2)	(1,131.9)	8,272.7	1,427.5

Source: Bank of Baroda Economics Research

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AUGUST MPC MINUTES

21 August 2019

Focus on growth to continue

With economic activity continuing to decelerate since June policy meeting, RBI reduced policy rate by 35bps. MPC has kept room open for more reduction depending upon incoming data. A benign inflation outlook favours lower real rates. Given the backdrop of current cyclical slowdown, we believe there is room for another 40bps reduction in policy rates. However, focus will move to transmission, in particular, for new loans with external benchmark linked products ensuring lower lending rates to incentivize consumers/ firms to invest.

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Growth momentum waning: MPC members pointed out that economic activity has slowed down since the June policy meeting. Exports, investment and consumption are decelerating and output gap is widening. As a result, four MPC members voted to reduce policy rate by 35bps. Outlook on consumption is not that positive with consumer surveys conducted by RBI showing drop in consumer confidence. Dr Patra said the consumption slowdown is attributable to fading of fiscal stimulus from 7th Pay Commission and OROP. Dr. Dua spoke about promoting investments through structural reforms and fiscal policy which lowers interest rates.

KEY HIGHLIGHTS

- Downside risks to growth persists.
- Inflation to remain benign.
- Room remains for 40bps rate cut.

Inflation to remain well anchored: MPC members reiterated that inflation outlook would remain benign. While food inflation has inched up, core inflation has come-off. Dr Patra attributed this to intrinsic link between inflation and output gap (Phillips curve). Hence, negative output gap is likely to put downside pressure on core inflation. While Kharif sowing is lower than last year and some seasonal uptick in food prices is possible, adequate soil moisture bodes well for Rabi sowing. So does more than adequate food stocks—domestic and global. We expect, inflation to be well below RBI's 4% target at 3.3% and 3.5% in FY20 and 21 respectively.

Room to reduce rates: While RBI has lowered its growth projection for FY20, actual growth is likely to be lower than current estimate of 6.9%. With inflation well below 4%, it opens up room for further rate cuts (our view another 40bps). The real rate then should stabilize between 1.5%-2% and gives adequate policy room to move either ways depending upon incoming data. More importantly, the focus should be on transmission. External benchmark (market interest rates) linked loan rate may lead to faster transmission for new loans and thus incentivize consumers/ firms to invest.



**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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