

Strategic investments continue to weigh on margins

BlueDart's management has described the business environment during the quarter as challenging and ascribed negative impact on the profitability due to ongoing strategic investments, to be expected in the short term but would create long term value for business and stakeholders. Revenues grew 9% YoY, buoyed by strong growth in the B2B segment, whereas the B2C segment remained muted. On the EBITDA front, margins contracted 420 bps to 3.7%, mainly led by the impact of the expanded asset reach related expenses (network, admin and manpower related costs). Subsequently, the absolute EBITDA and PAT declined 50% and 62%, respectively. The management expects the business environment to improve post elections.

Widespread infrastructure to provide competitive edge

As per the management, BlueDart reached ~18000 pin codes & expects to reach ~19200 pin-codes across India in few months. With this feat, it expects to remain the preferred logistics partner in all Tier 1, 2, 3, 4 cities. The company has also undertaken an investment programme for two to three years that will make it ready for the next leg of growth, which includes aggressive reach expansion, focus on emerging markets, sectors and SMEs etc. The widespread infrastructure and a push towards automation and building a strong IT network will enable the company to have a competitive advantage over existing domestic players and new entrants.

B2B, B2C segments expected to remain strong

For FY19, the B2B: B2C and air: surface split for the company is at 78:22 and 76:24, respectively. BlueDart is the market leader in the B2B and air segment (~47% market share). With an improvement in the road infrastructure, regulations benefitting organised players (GST, E-way bill, etc) and booming growth in the e-commerce (30-50% logistics outsourced), the management is bullish on the growing opportunities in the surface logistics (20%+ growth expected, current market share at ~16%).

Outlook and Valuation

Rising investment related costs has been exacerbated by subdued environment in Q4. We largely expect the environment to improve post Q1FY20 (post elections). The management is of the view that it takes 12-18 months for the incremental assets to start delivering in a positive manner for the company and ultimately lead to rise in the blended margins (we expect margins to rise in FY21). Also, as the economy improves, given its strong client base, BDE's business model provides earnings visibility. However, due to higher competition in the B2C segment and continued capex, we change our stance to **HOLD** recommendation, valuing at 40x FY21 earnings to arrive at a target price of ₹ 3140.



Particulars

Particular	Amount
Market Capitalization (₹ crore)	6,525
Total Debt (FY18) (₹ Crore)	308.7
Cash (FY18) (₹ Crore)	228.7
EV (₹ Crore)	6,605.2
52 week H/L	3920\2620
Equity Capital (₹ Crore)	23.7
Face Value (₹)	10.0

Key Highlights

- Change from Buy to Hold
- Business environment remained challenging in Q4FY19 but is expected to improve post-election
- B2B:B2C and air: surface split for the company is at 78:22 and 76:24, respectively
- BlueDart has undertaken an investment programme for two to three years that will make it ready for the next leg of growth

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Key Financial Summary

₹ crore	FY17	FY18	FY19P	FY20E	FY21E	CAGR (%)
Net Sales	2689.5	2799.2	3174.4	3634.1	4159.1	11.5
EBITDA	341.7	351.3	285.5	330.7	440.9	6.6
EBITDA margins (%)	12.7	12.5	9.0	9.1	10.6	
PAT	137.0	144.7	89.8	115.3	186.5	8.0
P/E (x)	46.7	45.2	72.8	56.6	35.0	
P/B (x)	15.2	12.3	11.3	10.5	9.4	
RoCE (%)	32.2	29.3	16.9	20.1	29.1	
RoE (%)	32.6	27.2	15.5	18.5	26.7	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	779.3	759.8	716.8	8.7	855.5	-8.9	Higher than estimated revenues mainly due to a strong B2B revenues
Freight Handling & Service cost	527.6	509.1	465.9	13.2	557.5	-5.4	
Employee Expenses	131.0	129.2	114.8	14.2	148.2	-11.6	Higher employee expenses indicating continued higher investments in expanding reach of the company
Administrative & Oth Expenses	92.0	76.0	79.3	16.0	89.6	2.7	
Total Expense	750.7	714.2	660.0	13.7	795.4	-5.6	
EBITDA	28.6	45.6	56.8	-49.6	60.1	-52.3	
EBITDA Margin (%)	3.7	6.0	7.9	-424 bps	7.0	-335 bps	Continued investments negatively weighed on margins
Depreciation	13.1	11.6	11.1	18.8	12.5	5.0	
Interest	3.3	3.8	3.9	-15.8	4.2	-22.9	
Other Income	4.7	4.5	5.3	-11.6	4.4	6.9	
Exceptional Gain/Loss	0.0	0.0	0.0	-	0.0	-	
PBT	16.9	34.7	47.1	-64.1	47.7	-64.6	
Total Tax	4.0	12.2	13.0	-68.9	16.3	-75.3	
PAT	12.9	22.6	34.1	-62.3	31.4	-59.0	In sync with EBITDA

Source: ICICI Direct Research

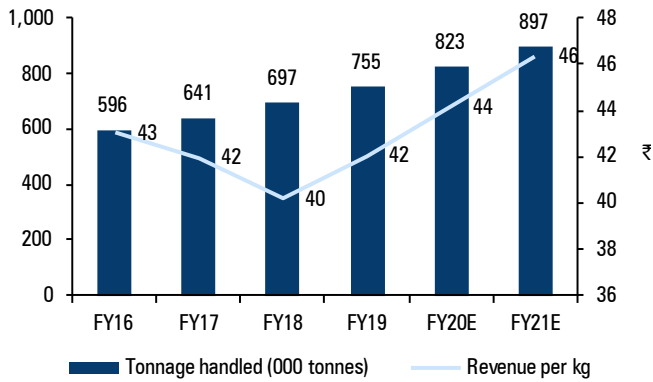
Exhibit 2: Key Metrics

(₹ Crore)	FY20E					FY21E			Comments
	FY18	FY19	Old	New	% Change	Old	New	% Change	
Revenue	2,799.2	3,174.4	3,564.0	3,634.1	2.0	4,134.1	4,159.1	0.6	
EBITDA	351.3	285.5	345.7	330.7	-4.3	446.5	440.9	-1.3	
EBITDA Margin (%)	12.5	9.0	9.7	9.1	-60 bps	10.8	10.6	-20 bps	Higher growth in surface transport and continued investments, expected to impact margins
PAT	144.7	89.8	140.7	115.3	-18.0	206.9	186.5	-9.8	
EPS (₹)	60.9	37.8	59.2	48.5	-18.0	87.1	78.5	-9.9	

Source: Company, ICICI Direct Research

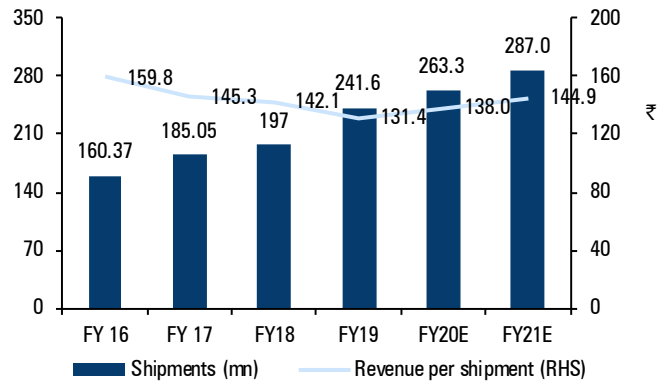
Key Metrics

Exhibit 3: Tonnage expected to grow at 9% CAGR FY19-21E



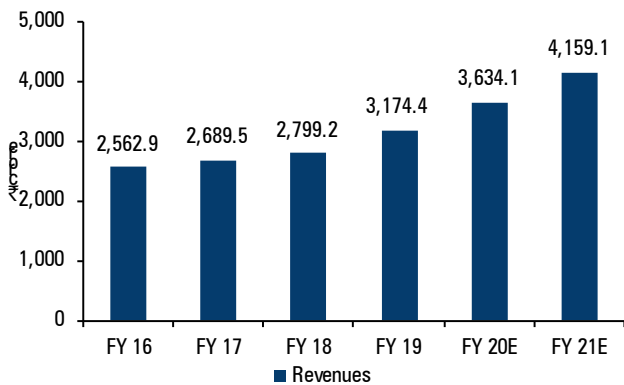
Source: ICICI Direct Research, Company

Exhibit 4: Shipments to grow at 9% CAGR in FY19-21E



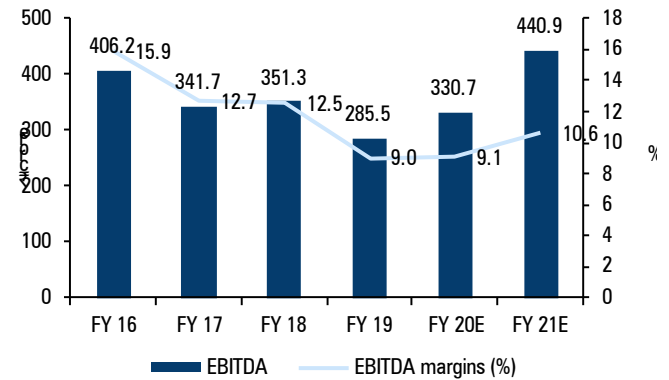
Source: ICICI Direct Research, Company

Exhibit 5: Revenues to grow at CAGR of 14% over FY19-21E



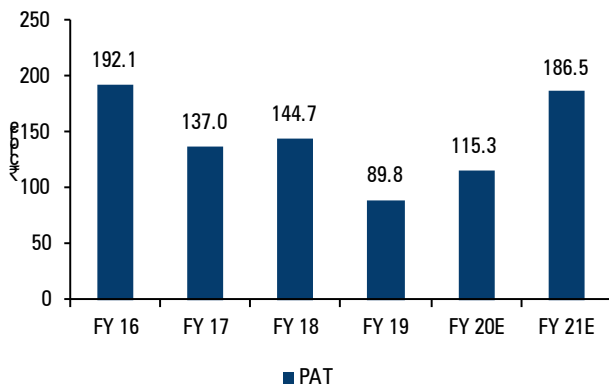
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA to grow at CAGR of 24% over FY19-21E



Source: ICICI Direct Research, Company

Exhibit 7: PAT to grow at CAGR of 44% over FY19-21E



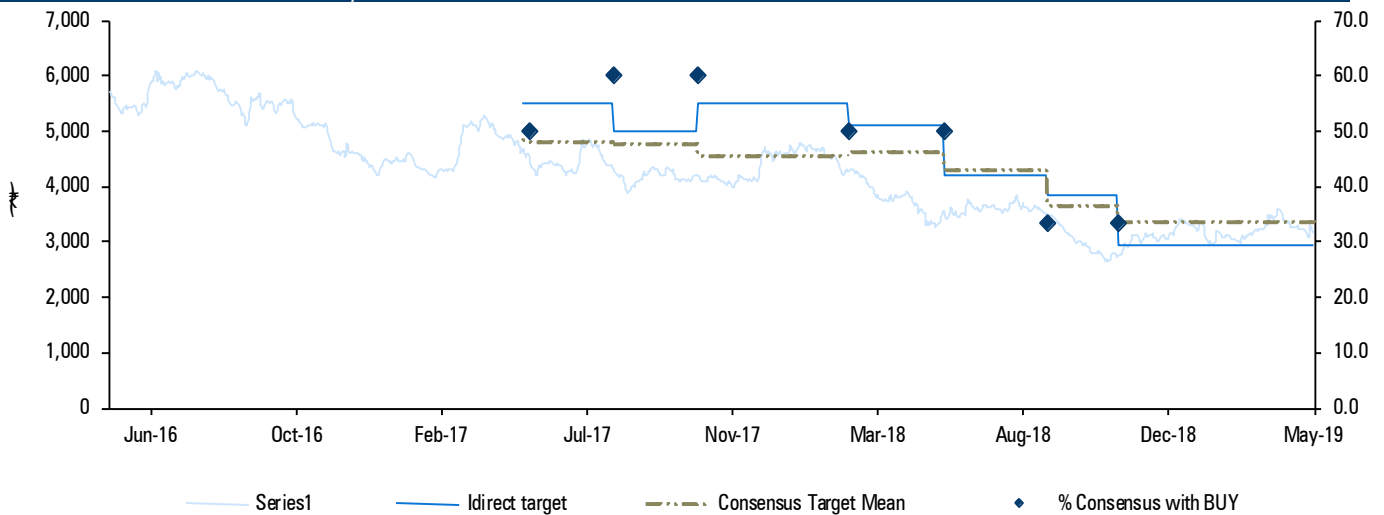
Source: Company, ICICI Direct Research

Exhibit 8: Valuation ratios

	Sales	Sales	EPS	EPS	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	Growth (%)	(₹)	Growth (%)	(x)	(x)	(%)	(%)
FY17	2689.5	4.9	58.9	-29.0	46.7	19.3	32.6	32.2
FY18	2799.2	4.1	60.9	3.5	45.2	18.8	27.2	29.3
FY19E	3174.4	13.4	37.8	-38.0	72.8	23.4	15.5	16.9
FY20E	3634.1	14.5	48.5	28.5	56.6	20.2	18.5	20.1
FY21E	4159.1	14.4	78.5	61.7	35.0	14.9	26.7	29.1

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation history vs Consensus



Source: ICICI Direct Research; Reuters

Exhibit 10: Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	DHL Express Singapore Pte. Ltd.	31-Mar-19	75.0	17.8	0.0
2	ICICI Prudential Life Insurance Company	31-Mar-19	3.6	0.9	0.2
3	Bright Star Investments Pvt. Ltd.	31-Mar-19	3.4	0.8	0.0
4	Life Insurance Corporation of India	31-Dec-18	2.6	0.6	0.1
5	Matthews International Capital Manage	31-Dec-18	2.1	0.5	0.0
6	ICICI Prudential Asset Management Co.	31-Dec-18	1.6	0.4	0.0
7	Damani Estates & Finance Pvt. Ltd.	31-Mar-19	1.3	0.3	0.0
8	The Vanguard Group, Inc.	31-Mar-19	0.8	0.2	0.0
9	SBI Funds Management Pvt. Ltd.	31-Mar-19	0.6	0.1	0.0
10	BlackRock Institutional Trust Company,	31-Mar-19	0.5	0.1	0.0

Source: ICICI Direct Research, Reuters, Company

Exhibit 11: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	75.0	75.0	75.0	75.0
FII	5.6	5.6	4.5	4.5
DII	7.6	3.9	3.1	2.3
Others	11.9	15.5	17.5	18.2

Source: ICICI Direct Research, Reuters, Company

Exhibit 12: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
ICICI Prudential Life Insurance Company Ltd.	10.04	0.19	First State Investments (Singapore)	-5.94	-0.12
Life Insurance Corporation of India	2.45	0.05	Stewart Investors	-3.96	-0.08
Eastspring Investments (Singapore) Limited	0.14	0.00	Morgan Stanley Investment Management (Indi	-3.88	-0.08
BlackRock Institutional Trust Company, N.A.	0.03	0.00	HDFC Asset Management Co., Ltd.	-1.43	-0.03
Reliance Nippon Life Asset Management Limited	0.03	0.00	Baroda Asset Management India Ltd	-0.56	-0.01

Source: ICICI Direct Research, Reuters

Exhibit 13: Profit & Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	2,799.2	3,174.4	3,634.1	4,159.1
Growth (%)	4.1	13.4	14.5	14.4
Operating and handling cost	1,127.8	1,283.7	1,526.3	1,746.8
Other Aircraft Expenses	115.7	190.5	218.0	249.5
Fuel Charges	194.4	238.1	254.4	291.1
Other Operating Expenses	41.0	54.0	61.8	70.7
Employee Cost	584.5	698.4	745.0	790.2
Other Expenses	384.6	424.4	497.9	569.8
Total Expenditure	2,448.0	2,889.0	3,303.4	3,718.2
EBITDA	351.3	285.5	330.7	440.9
Growth (%)	0.0	-0.2	0.2	0.3
Depreciation	114.5	127.9	144.7	157.2
Interest	40.5	42.7	37.5	32.4
Other Income	20.7	19.2	23.6	27.0
PBT	217.0	134.1	172.2	278.4
Tax	72.3	44.4	56.8	91.9
Adjusted PAT	144.7	89.8	115.3	186.5
Growth (%)	3.5	-38.0	28.5	61.7
EPS	60.9	37.8	48.5	78.5

Source: ICICI Direct Research

Exhibit 14: Cash flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	144.7	89.8	115.3	186.5
Add: Depreciation	114.5	127.9	144.7	157.2
Add: Interest	40.5	42.7	37.5	32.4
Increase in Current Liabilities	100.5	171.5	-30.4	63.3
Increase in Current Assets	-30.6	-83.3	-12.2	-77.8
Others	-52.9	0.0	0.0	0.0
CF from operating activities	316.7	348.5	254.9	361.5
(Inc)/dec in Investments	0.4	-1.1	-10.0	-10.0
(Inc)/dec in Fixed Assets	-199.5	-255.4	-110.0	-110.0
Others	9.3	-107.9	0.0	0.0
CF from investing activities	-189.8	-364.4	-120.0	-120.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-68.6	90.1	-60.0	-60.0
Less: Interest	-40.5	-42.7	-37.5	-32.4
Others	-8.3	-35.7	-69.4	-112.3
CF from financing activities	-117.4	11.8	-166.9	-204.6
Net Cash flow	9.5	-4.1	-32.0	36.9
Opening Cash	265.0	274.6	270.4	238.4
Closing Cash	274.6	270.4	238.4	275.3

Source: ICICI Direct Research

Exhibit 15: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Liabilities				
Equity Capital	23.8	23.8	23.8	23.8
Reserve and Surplus	508.1	554.0	599.9	674.1
Total Shareholders funds	531.8	577.7	623.6	697.9
Total Debt	406.1	496.2	436.2	376.2
Long term Provisions	4.4	3.6	3.6	3.6
Other Long term liabilities	16.3	20.0	20.0	20.0
Deferred Tax Liability	0.00	0.00	0.00	0.00
Total Liabilities	958.6	1,097.5	1,083.4	1,097.7
Assets				
Gross Block	793.3	1,057.2	1,157.2	1,257.2
Less: Acc Depreciation	275.0	402.9	547.5	704.7
Net Block	518.3	654.4	609.7	552.6
Capital WIP	99.2	90.7	100.7	110.7
Total Fixed Assets	617.5	745.0	710.4	663.2
Non-current Investments	55.8	56.9	66.9	76.9
Other Non-current assets	69.2	109.6	109.6	109.6
Deferred Tax Asset	20.3	36.6	36.6	36.6
Inventory	21.3	26.0	29.9	34.2
Debtors	422.3	491.0	497.8	569.7
Loans and Advances	1.0	0.9	0.9	1.0
Other Current Assets	66.6	76.5	78.0	79.6
Cash	228.7	270.4	238.4	275.3
Current investments	0.0	0.0	0.0	0.0
Total Current Assets	739.8	864.9	845.1	959.8
Creditors	368.4	434.3	398.3	455.8
Other liab & Provisions	175.6	281.2	286.8	292.6
Total Current Liabilities	544.0	715.5	685.1	748.4
Net Current Assets	195.8	149.4	160.0	211.4
Application of Funds	958.6	1,097.5	1,083.4	1,097.7

Source: ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY18	FY19P	FY20E	FY21E
Per share data (₹)				
EPS	60.9	37.8	48.5	78.5
Cash EPS	109.1	91.6	109.4	144.6
BV	252.1	276.1	319.7	344.1
DPS	15.0	12.5	24.3	39.3
Cash Per Share	96.2	113.8	100.4	115.9
Operating Ratios (%)				
EBITDA Margin (%)	12.5	9.0	9.1	10.6
PBT / Total Operating inc	7.8	4.2	4.7	6.7
PAT Margin	5.2	2.8	3.2	4.5
Inventory days	2.8	3.0	3.0	3.0
Debtor days	55.1	56.5	50.0	50.0
Creditor days	48.0	49.9	40.0	40.0
Return Ratios (%)				
RoE	27.2	15.5	18.5	26.7
RoCE	29.3	16.9	20.1	29.1
RoIC	43.8	26.7	31.1	50.2
Valuation Ratios (x)				
P/E	45.2	72.8	56.6	35.0
EV/EBITDA	18.4	22.6	19.7	13.7
EV/Sales	2.3	2.0	1.8	1.4
Market Cap / Sales	2.3	2.1	1.8	1.6
Price to Book Value	12.3	11.3	10.5	9.4
Solvency Ratios				
Debt/EBITDA	1.2	1.7	1.3	0.9
Debt / Equity	0.6	0.7	0.6	0.5
Current Ratio	1.2	1.1	1.1	1.2
Quick Ratio	1.8	1.8	1.9	2.3

Source: ICICI Direct Research

Exhibit 17: I-Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	
Container Corporation	466	625	BUY	28,369	14.1	18.2	20.1	19.6	36.5	28.2	25.6	26.2	6.7	5.4	5.9	3.7	9.8	11.3	12.8	13.8	
Transport Corp. of India	289	350	BUY	2,217	10.7	16.1	22.0	27.3	25.2	16.8	12.3	9.9	14.4	11.0	8.4	7.0	10.7	13.4	15.1	15.8	
BlueDart	2,750	3,140	BUY	6,525	58.9	60.9	37.8	48.5	46.7	45.2	72.8	56.6	19.3	18.4	22.6	19.7	32.2	29.3	16.9	20.1	
Gati Ltd.	75	75	Hold	810	1.2	3.2	1.2	2.6	59.1	22.6	60.9	27.8	9.2	13.7	11.6	8.2	7.6	6.0	7.2	10.3	
Gujarat Pipavav	86	90	BUY	4,187	5.8	4.6	4.9	5.5	14.7	18.8	17.6	15.6	9.1	10.0	9.3	8.4	14.0	12.1	12.2	13.6	
TCI Express	638	780	BUY	2,444	9.8	19.5	19.5	24.4	65.9	33.1	33.1	26.4	40.3	20.8	20.8	16.6	31.9	38.3	38.3	36.4	

Source: ICICI Direct Research, Bloomberg

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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