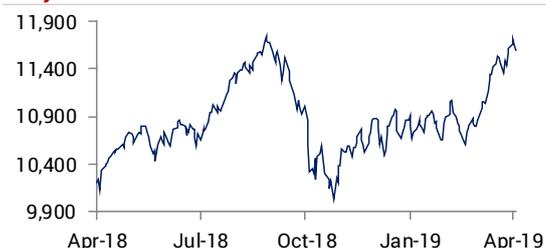


APRIL 5, 2019

	4-Apr	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,685	(0.5)	7.3	8.4	
NIFTY Index	11,598	(0.4)	6.8	8.1	
NSEBANK Index	29,905	(0.6)	10.6	10.0	
NIFTY 500 Index	9,627	(0.3)	6.5	6.3	
CNXMcap Index	18,099	(0.2)	6.7	2.6	
BSESMCAP Index	14,938	(0.3)	6.8	2.4	
World Indices					
Dow Jones	26,385	0.6	2.2	12.6	
Nasdaq	7,892	(0.0)	4.2	17.1	
FTSE	7,402	(0.2)	3.0	8.3	
NIKKEI	21,725	0.1	0.3	11.4	
Hangseng	29,986	1.2	3.4	16.8	
Shanghai	3,216	1.2	6.3	29.1	
Value traded (Rs cr)					
	4-Apr	% Chg Day			
Cash BSE	3,674	26.8			
Cash NSE	35,621	(3.1)			
Derivatives	2,238,702	128.3			
Net inflows (Rs cr)					
	3-Apr	MTD	YTD		
FII	(832)	474	59,524		
Mutual Fund	17	(370)	2,526		
Nifty Gainers & Losers					
	Price	Chg	Vol		
4-Apr	(Rs)	(%)	(mn)		
Gainers					
Indiabulls Housing	898	3.3	21.1		
Zee Entertainment	417	3.2	18.8		
Tata Motors	206	2.4	41.3		
Losers					
TCS	2,015	(3.1)	4.4		
Hindalco Ind	210	(2.6)	7.7		
BPCL	354	(2.5)	10.2		
Advances / Declines (BSE)					
4-Apr	A	B	T	Total	% total
Advances	186	339	44	569	100
Declines	269	596	58	923	162
Unchanged	6	32	6	44	8
Commodity					
	4-Apr	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	69.2	(0.4)	5.0	21.2	
Gold (US\$/OZ)	1,292.3	0.2	0.1	0.4	
Silver (US\$/OZ)	15.2	0.1	(0.0)	(3.6)	
Debt / Forex Market					
	4-Apr	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.3	7.3	7.4	7.4	
Re/US\$	69.2	68.4	70.9	69.7	

Nifty



Source: Bloomberg

News Highlights

- ▶ RBI's monetary policy committee (MPC), led by Governor Shaktikanta Das, on Thursday announced a 25 basis points cut in the short-term lending rate, also known as repo or repurchase rate, in its first bi-monthly rate review of financial year 2019-20. The repo rate now stands at 6 per cent. MPC voted 4:2 in favour of the rate cut. (ET)
- ▶ **Titan Company's** sales grew in FY19 by around 21 percent, targets around 20 percent growth in FY20 despite the muted outlook for economy. Jewellery division grew 22 percent and Eyewear 23 percent in FY19. (MC)
- ▶ **Mahindra & Mahindra** crossed 15 lakh units production milestone for Swaraj Tractors. It produces over 1,20,000 tractors in 2018-19, second highest by an Indian tractor brand during the year. (MC)
- ▶ The country's largest car maker, **Maruti Suzuki**, cut vehicle production by around 21 per cent across its factories in March due to subdued demand. The auto major produced a total of 1,36,201 units in March, it said in a regulatory filing. (ET)
- ▶ There was a fire accident at **VIP Industries's** warehouse at Uttar Pradesh and there was no loss to human life. Company is taking adequate steps to ensure re-functioning of the Warehouse. (MC)
- ▶ Gallas to buy 2 percent stake from Johnson Controls in **Amara Raja Batteries**, increasing shareholding to 28 percent. (MC)
- ▶ India's biggest maker of the alloy, **JSW Steel**, is set to raise \$500 million by selling dollar bonds, ending a year-long wait for garnering debt funds overseas. (ET)
- ▶ **PVR** has signed deals with CJ 4DPLEX, the world's leading cinema technology company, and D-BOX Technologies, a world leader in immersive motion entertainment experiences, to open 10 ScreenX theatres and install 400 D-BOX seats across 9 cinemas in India. (ET)
- ▶ GMR Airports, a stepdown subsidiary of infrastructure conglomerate **GMR Infrastructure**, raised \$300 million through a bond issue in the international market to part fund an expansion plan to nearly triple passenger handling capacity at Hyderabad International Airport. (ET)
- ▶ Food company **Britannia Industries**, said it has raised Rs. 500 crore through issuance of commercial paper. (ET)
- ▶ The state-owned firm, **Hindustan Copper**, said provisional copper ore production for the 2018-19 fiscal stood at 41.22 lakh tonnes, 12 per cent higher than that of last year. (ET)

What's Inside

- ▶ **Company Update:** Bluedart Express Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Management Meet Update
BLUEDART EXPRESS LIMITED (BLUEDART)
Stock Details

Market cap (Rs mn)	:	78943
52-wk Hi/Lo (Rs)	:	4099 / 2620
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	6,487
Shares o/s (mn)	:	24

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	27,908	30,920	33,858
Growth (%)	3.9	10.8	9.5
EBITDA	2,599	2,612	2,893
EBITDA margin (%)	9.3	8.4	8.5
PAT	1,422	1,544	1,801
EPS	59.7	64.9	75.7
EPS Growth (%)	-2.5	8.6	16.7
BV (Rs/share)	330.1	381.7	445.0
Dividend/share (Rs)	12.5	15.0	15.0
ROE (%)	19.6	18.2	18.3
ROCE (%)	22.5	23.1	25.2
P/E (x)	55.7	51.3	44.0
EV/EBITDA (x)	28.6	27.2	24.8
P/BV (x)	10.1	8.7	7.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

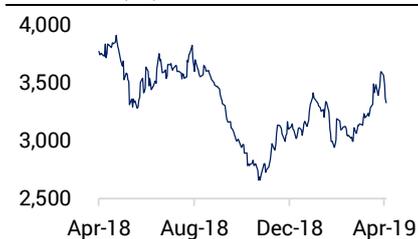
(%)	Dec-18	Jun-18	Mar-18
Promoters	75.0	75.0	75.0
FII	4.5	5.6	6.7
DII	6.0	6.5	5.9
Others	14.6	12.8	12.4

Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Blue Dart Exp	5.8	(0.7)	12.3
Nifty	6.8	8.1	9.4

Source: Bloomberg

Price chart (Rs)


Source: Bloomberg

PRICE Rs.3345
TARGET Rs.3400
REDUCE

Revival in B2B segment, healthy B2C segment and stable growth in the E-com segment led to improved performance for Bluedart in Q3FY19. However, competition remains unabated and keeping the growth momentum on in the e-commerce segment is a challenge. PAN India expansion of services may enable Bluedart to deliver strong volume growth going forward; which is expected of a market leader and for a stock which is trading at super rich valuations. But, probability of achieving this growth remains questionable considering competition and demographic challenges. Recommend Reduce (from Add) with an unchanged TP of Rs 3400.

Company is expanding PAN India

BLUEDART had hired McKinsey & Company and spent a total of Rs 350 mn in FY18 to prepare a strategy for BLUEDART for developing new products, reduce operating cost, and improve utilization level of assets, geographical expansion and to face competition.

As part of the strategy company has expanded from 7000 pin codes in Tier 1 and Tier 2 cities to 18000 pin codes PAN India. To implement the same, company has made a capex of Rs 500 mn in H1FY18 and Rs 800 mn in FY19. This has also increased the offices/agents/franchisee and employee cost of the company.

We expect the company to spend similar amount as capex in FY20E and increase the reach of the company to 19000 Pincodes (maximum for India). The expansion is also estimated to increase the employee cost and administrative cost for the company in FY19 and FY20E without commensurate increase in revenues, impacting the PAT of the company. However, we estimate this to yield superior results in the Long term.

Expansion to primarily cater to B2C segment

As per the management, Blue Dart currently has a market share of ~30% in the ecommerce segment (18% of company's revenue) which has grown at 30% CAGR in the last 3 years. Management also indicated, currently it has tie ups with more than 2000 e commerce companies.

But on the other hand, some big ecommerce companies:

- 1) Have their own logistics service
- 2) These ecommerce companies outsource courier work only during times of delivery load (like festive season)
- 3) Also ecommerce companies work with thin margins and outsource delivery only to cost effective courier service, while Bluedart is a premium service.

In-house Logistics service of top e-commerce companies in India

E-commerce company	In House Logistics service
Flipkart	Ekart
Amazon	Amazon Transportation
Myntra	Myntra Logistics

Source: Industry

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The management expects it will take around 2 years for the capital investments and expansion to make any meaningful contribution to topline and earnings. However, considering the current structure of the E-commerce Industry and shopping habits and demographics of tier 2/3 cities, the growth is questionable

BFSI facing growth stagnant

With digitization and “Go Green” push by the corporate World, the BFSI segment, which is the traditional stronghold for Bluedart (10% of revenues) has slowed down for the company. BFSI, Pharma, electronics, Auto and E-Commerce remains the top five performing sector for the company.

Bluedart facing tariff pressure

Timely and effective delivery is very critical for Bluedart as most of the items carried by it involve 1) Important documents for corporate clients 2) Time bound delivery of merchandise for ecommerce industry.3) Fragile goods and so on. It also develops trust and credibility for the company from clients. This also enabled Bluedart to charge premium over other players in the industry. However, with competition, especially in the B2C segment, the premium for Bluedart over other players has come down.

Premium charges by Bluedart - Route - Mumbai Delhi for express cargo

Company	March 2017	March 2019
Bluedart	540	600
Aramex	330	400
DTDC	300	350
First flight	250	325

Source: Industry

Operating cost is a pass through

For BDE 35% of the operating cost is fuel cost and another 35% is ground handling cost which is fixed in nature. Contracts and Tariffs are regularly revised by the company based on latest input cost thereby cushioning the margins of the company. Management expect to return to long term average operating margins of 11%, post FY21

Cost variables of a express service player

Capital cost	Fixed cost	Variable cost
Vehicles	Employee	Fuel
Branches	Insurance	Contract Labour
Hubs		

Source: Company, Kotak Securities – Private Client Research

Unparalleled infrastructure

Bluedart already have a robust brand name, systems and infra in place to capture the above growth. Bluedart currently has a fleet of 6 aircraft (5 Boeing 757), 9185 vehicles, 582 facilities, 20 ground hubs and a dedicated skilled staff of 10000+ employees who work around the clock to yield results for the company. This infrastructure is unparalleled in the courier industry which helps BDE to deliver safely, on time and differentiate itself from other players. Promoter DHL is planning to buy 1000 trucks annually for five to six years and make the fleet available for Bluedart for its expanded operations (Bluedart will pay DHL on a per km usage basis).

Current infrastructure of Bluedart

Infrastructure	No's	Remark
Aircraft	6	1850 tonnes per day
Air network station	7	
Vehicles	9185	5 lakh shipments per day
Facilities	582	Retail Outlets
Blue darters	10000+	Dedicated and trained
Ground hubs	20	Hub and spoke model
Network routes	166	Centipede model
Countries served	220+	

Source: Company

Valuation and Outlook

Bluedart is an undisputed market leader in the air express segment, with a dominant market share of ~50%. It is also a strong player in the ground express cargo segment with a market share of ~13%. A fresh strategy under the observation of Mckinsey, expansion of operations PAN India and strong growth in the ecommerce segment may contribute to performance of the company post FY21E. However, given the huge time lag between capex and result expectation and low to medium probability of success of the strategy, we are not overtly optimistic on future performance.

The stock has run-up by more than 12% since our last update. We continue to maintain our near term estimates and multiple for Bluedart, valuing the stock at its long term average multiple of 45x with a target price of Rs 3400 and Reduce rating (from ADD).

Company background

Bluedart is South Asia's premier courier, and integrated express package Distribution Company. The company has the most extensive domestic network covering over 35,000 locations, and service more than 220 countries and territories worldwide through group company DHL, the premier global brand name in express distribution services. The company has the most advanced communications systems and is strongly positioned to offer a consistent, premium, standardized quality of service. The company also has a dedicated aviation system which is focused on carriage of packages as its prime business, rather than as a by-product of a passenger airline. The company also has its own bonded warehouses, ground handling and maintenance capability.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	26,870	27,908	30,920	33,858
% change YoY	5.2	3.9	10.8	9.5
Freight&handling	18,125	19,235	21,514	23,533
Employee cost	3,625	3,796	4,246	4,645
Other expenses	2,417	2,278	2,548	2,787
Total Operating expd	24,166	25,309	28,308	30,965
EBITDA	2,704	2,599	2,612	2,893
Depreciation	439	450	450	460
EBIT	2,265	2,149	2,162	2,433
Other income	280	227	350	360
Interest expense	312	257	208	104
Profit before tax	2,233	2,119	2,304	2,689
Tax	775	697	760	887
ETR (%)	34.7	32.9	33.0	33.0
Profit after tax	1,458	1,422	1,544	1,801
Minorities& Associates	0	0	0	0
Net income	1,458	1,422	1,544	1,801
% change YoY	-23.2	-2.5	8.6	16.7
Shares outstanding (m)	24	24	24	24
EPS	61.3	59.7	64.9	75.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	1,458	1,422	1,544	1,801
Depreciation +DTL	555	555	564	593
Change in working capital	(558)	(135)	(304)	(344)
Cash flow from operations	1,456	1,842	1,804	2,050
Capex	(2,772)	(1,081)	(800)	(600)
Investments	(22)	106	(56)	-
Cash flow from investments	(2,794)	(975)	(856)	(600)
Equity issuance	-	-	-	-
Debt raised	(253)	(948)	(816)	(1,566)
Dividend Paid	(428)	(357)	(428)	(428)
Miscellaneous items	-	-	-	-
Cash flow from financing	(682)	(1,305)	(1,244)	(1,994)
Net cash flow	(2,020)	(438)	(296)	(544)
Opening cash	4,268	2,248	1,810	1,514
Closing cash	2,248	1,810	1,514	970

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	2,248	1,810	1,514	970
Debtors	3,493	3,628	4,020	4,401
Inventory	50	100	100	100
Other current assets	4,031	4,186	4,638	5,079
Total current assets	7,574	7,914	8,758	9,580
LT investments	250	144	200	200
Net fixed assets	4,743	5,374	5,724	5,864
Total assets	14,814	15,242	16,197	16,615
Creditors	3,142	3,290	3,680	4,025
Provisions	483	506	566	619
Other current liabilities	725	759	849	929
Total current liabilities	4,350	4,556	5,095	5,574
LT debt	3,779	2,831	2,016	450
Minority Interest	0	0	0	0
Equity Capital	238	238	238	238
Reserves	6,448	7,617	8,847	10,353
Networth	6,686	7,855	9,085	10,592
Total liabilities	14,814	15,242	16,197	16,615
BVPS (Rs)	280.9	330.1	381.7	445.0

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	10.1	9.3	8.4	8.5
EBIT margin (%)	8.4	7.7	7.0	7.2
Net profit margin (%)	5.4	5.1	5.0	5.3
ROE (%)	23.9	19.6	18.2	18.3
ROCE (%)	25.4	22.5	23.1	25.2
DPS	15.0	12.5	15.0	15.0
Dividend payout (%)	29.4	25.1	27.8	23.8
Working capital turnover (days)	40.0	43.0	41.4	41.3
Debt Equity (x)	0.6	0.4	0.2	0.0
PER (x)	54.3	55.7	51.3	44.0
P/C (x)	39.3	40.1	37.6	33.1
Dividend yield (%)	0.5	0.4	0.5	0.5
P/B (x)	11.8	10.1	8.7	7.5
EV/Sales (x)	3.0	2.9	2.6	2.4
EV/ EBITDA (x)	27.0	28.6	27.2	24.8

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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