

Understanding Bonus Debentures- A Case of Blue Dart Express Limited

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The Board of Directors of Blue Dart Express Ltd, at its meeting held on October 15, 2013 approved a Scheme of Arrangement between the company and its members under section 391 for issuance of unsecured, redeemable, non-convertible, fully paid up debentures, by way of bonus, to be allotted out of surplus in the statement of Profit and Loss of the Company.

The company is in its 30th year of operations. So as to reward shareholders it has formulated and approved a scheme which entails issue and allotment of three series of bonus debentures to its existing shareholders. The salient features of different series of these Debentures are as below:

Series	Debenture Type	Term Period of Debenture	Entitlement Ratio
Series 1	Debentures of ₹ 10 each fully paid up.	12 months	1 debenture for every equity share
Series 2	Debentures of ₹ 10 each fully paid up.	12 months	1 debenture for every equity share
Series 3	Debentures of ₹ 10 each fully paid up.	12 months	1 debenture for every 1 equity share

The company will take out ₹ 332,19,10,760 (approx. 332.20 crores) from the surplus in statement of profit and loss account to be distributed as bonus debentures to the shareholders. These debentures will be considered as a 'deemed dividend' under the provisions of the Income Tax Act, 1961. The company would bear and pay the applicable dividend distribution tax on the aggregate value of the bonus debenture issue.

The scheme is subjected to approval from the Bombay High Court, Stock Exchanges and other authorities. These debentures are proposed to be listed on BSE Limited and/or National Stock Exchange of India Limited. The debentures would carry an interest rate as may be decided by the Board at the time of their issuance.

Corporate Profile of Blue Dart Express Ltd

Blue Dart Courier Services was established in 1984 to provide carrier service for the first time in India. In the years 1991, Blue Dart Express was registered as a private limited company and in 1994 the company went to public with an equity offer of 2.55 million shares at a premium of 14 times worth ₹ 382.5 million. Thus Blue Dart Express Ltd. was registered as a public limited company and became the first private sector company to receive government permission for operation of cargo aircraft in India.

Today, the company is a dominant leader in the domestic air express industry and commands a 49% market share in the organized 'air' express market (2012). In the 'ground segment', the company garnered a market share of 13.3% (2012), Blue Dart offers secure and reliable delivery of consignment to over 33,739 locations in India and to over 220 countries and territories worldwide through its group company, DHL Express. In the fifteen months period from January 2012 to March 2013, Blue Dart carried over 141.7 million domestic shipments and over 1 million international shipments weighing over 5,94,900 tonnes.

Financial Performance – 2012-13

The company earned a profit after tax of ₹ 18,866 lacs for the fifteen months ending on March 31, 2013. (The company changed its accounting year from December 31 to March 31 and thus, extended the current accounting year by 3 months). It transferred ₹ 1887 lacs to general reserve (2012-13). An accumulated balance of ₹ 53405 lacs was carried forward to Profit & Loss Account. The company's EPS is ₹ 79.5 per share. The Company declared a dividend of ₹ 71 per share on a share of ₹ 10 each for the year 2012-13.

Capital Structure and Credit Rating

The company continues to enjoy 'zero debt' status. ICRA has assigned long term rating of AA (ICRA double A) to the company's Bank

limits. The rating indicates the high degree of safety regarding timely servicing of financial obligations and carry very low credit risk. ICRA also assigned short term rating of A1 + for the said limits and company's commercial paper/short term debt program. The rating again indicates a very strong degree of safety regarding timely payment of financial obligations and carries lowest credit risk.

Bonus Debentures as an Instrument to Reward Shareholders

Over the years of operation, most growing companies build significant accumulated profits and reserves by ploughing back profits. These undistributed profits are employed in business either by investing in fixed assets or as working capital or both. Sometimes, this accumulated surplus is well above company's current and likely future operational needs. In such cases, the company finds it appropriate and desirable to reward the shareholders by utilizing retained earnings.

The accumulated profits and reserves may be utilized by a company to reward shareholders in four popular ways i.e. cash dividend, bonus shares, bonus debentures and buy back of shares.

Cash dividend is a bounty and is certainly a matter of excitement for the shareholders. However, payment of special cash dividend may put pressure on the cash position of the paying company. Buyback of shares also requires immediate cash and is not considered equitable as only a few shareholders would get the benefit of a buyback offer.

Issue of bonus shares is the most popular way in which companies like to utilize their large accumulated reserves. Bonus shares are issued to the existing shareholders free of cost in proportion to their shareholding by capitalizing the amount of 'Reserves and Surplus'. At the hands of the shareholders, the total number of shares held increases but the percentage of the shareholding remains constant. The net worth of the company also does not change. However, issue of bonus shares increases the issued capital of company, which decreases the

earnings per share of the company. With the increase in tradable shares in the market, the market value of each share may also get diluted. Thus in the past few years, many Indian companies including Blue Dart Express Ltd have resorted to issue of bonus debentures to reward shareholders. Like bonus shares, bonus debentures are issued free of cost to the shareholders in proportion to their existing shareholding. Only distributable accumulated profits and reserves can be capitalized for the issue of bonus debentures. The capitalized accumulated profits remain invested in the company as debt. The net worth and the capital structure of the company change with the issue. These debentures are mostly issued as unsecured, fully paid up, non-convertible with a coupon rate and a fixed maturity period after which they are redeemed.

The whole bonus debenture issue is considered 'deemed dividend' under the Income Tax Act 1961, and the issuing company is required to pay dividend distribution tax on it. In subsequent years, interest on bonus debentures is a deductible expense from the income. When the debenture is redeemed by the company or it is sold by the debenture holder in the market, the debenture holder won't be taxed to the extent of the face value of the debentures. Only the additional appreciation will be taxed as capital gains.

Future Prospects of the Company

The company is confident of generating incremental cash over the next few years. Overall reserves position is expected to improve further even, after considering cash requirements for the company's capex program and working capital requirements. The company expects to have reasonable liquidity position while having adequate debt raising capability.

Case Study Questions

Identifying the key financial characteristics of the company which induced it to issue bonus debentures as reward to the shareholders.

Identify and differentiate the nature of Reserves and Surplus amounts which can be used to Issue Bonus Share and Bonus Debentures.

3. What could be the possible reasons to use bonus debentures and not bonus share as an instrument to reward its shareholders by Blue Dart Express Ltd?
 Economicstimes.indiatimes.com>Markets>Stocks
www.bludart.com/bsedoument.pdf
www.bludart.com/milestones.html
4. What are the tax implications of the issue of bonus debentures?
www.bludart.com/nsedoument.pdf
[www.thehindubusinessline.com/./click - here - for - pdf - 16192971.pdf](http://www.thehindubusinessline.com/./click-here-for-pdf-16192971.pdf)
5. How the capital structure changes in case of issue of bonus debentures. Is it the same as issue of bonus share?

References

Annual Report of Blue Dart Express Ltd., for the year 2012-13

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Annexure 1: Balance Sheet - Blue Dart Express Limited, 2012-13

Parameter	MAR'13 (₹ Cr.)	DEC'11 (₹ Cr.)	YoY %Change
EQUITY AND LIABILITIES			
Share Capital	23.76	23.76	0.00%
Share Warrants & Outstanding			
Total Reserves	625.93	634.37	
Shareholder's Funds	649.69	658.13	
Long-Term Borrowings	0.00	0.00	0.00%
Secured Loans	0.00	0.00	0.00%
Unsecured Loans	0.00	0.00	0.00%
Deferred Tax Assets / Liabilities	14.86	18.24	
Other Long Term Liabilities	0.00	0.00	0.00%
Long Term Trade Payables	0.00	0.00	0.00%
Long Term Provisions	254.84	165.03	
Total Non-Current Liabilities	269.70	183.27	
Current Liabilities			
Trade Payables	72.88	52.91	
Other Current Liabilities	87.91	93.51	
Short Term Borrowings	0.00	0.00	0.00%
Short Term Provisions	202.46	5.88	
Total Current Liabilities	363.25	152.30	
Total Liabilities	1,282.64	993.70	
ASSETS			
Non-Current Assets	0.00	0.00	0.00%

Gross Block	394.46	393.25	
Less: Accumulated Depreciation	174.28	160.52	
Less: Impairment of Assets	0.00	0.00	0.00%
Net Block	220.18	232.73	
Lease Adjustment A/c	0.00	0.00	0.00%
Capital Work in Progress	4.86	1.85	
Intangible assets under development	7.42	1.02	
Pre-operative Expenses pending	0.00	0.00	0.00%
Assets in transit	0.00	0.00	0.00%
Non Current Investments	19.77	19.77	0.00%
Long Term Loans & Advances	509.72	428.92	
Other Non Current Assets	0.85	0.75	
Total Non-Current Assets	762.80	685.04	
Current Assets Loans & Advances			
Currents Investments	0.00	51.70	
Inventories	2.35	2.62	
Sundry Debtors	227.21	188.98	
Cash and Bank	236.49	37.56	
Other Current Assets	16.39	15.72	
Short Term Loans and Advances	37.40	12.08	
Total Current Assets	519.84	308.66	
Net Current Assets (Including Current Investments)	156.59	156.36	
Total Current Assets Excluding Current Investments	519.84	256.96	
Miscellaneous Expenses not written off	0.00	0.00	0.00%
Total Assets	1,282.64	993.70	
Contingent Liabilities	0.00	0.36	
Total Debt	0.00	0.00	0.00%
Book Value (in ₹)	273.77	277.33	

Adjusted Book Value (in ₹)

Source: http://profit.ndtv.com/stock/blue-dart-express-ltd_bluedart/financials