DELHIVERY

Date: August 08, 2024

BSE Limited
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Dalal Street,
Mumbai – 400 001
India

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
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India

Scrip Code: 543529

Symbol: DELHIVERY

Sub: Transcript of Earnings Conference Call pertaining to the Unaudited Financial Results for the quarter ended June 30, 2024

Dear Sir,

This is in continuation to our earlier letter dated August 02, 2024, regarding audio recording of the Earnings Conference Call held on August 02, 2024, at 06:00 P.M. (IST) on the performance of the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter ended June 30, 2024.

Please find attached herewith the transcript of the above investor and analyst call.

The above disclosure is also being uploaded on the website of the Company at www.delhivery.com

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

Madhulika Rawat
Company Secretary & Compliance Officer
Membership No: F 8765
Place: Mumbai

Encl: As above

"Delhivery Limited Q1 FY25 Earnings Conference Call"

Aug 02, 2024

Management: MR. SAHIL BARUA, MD & CHIEF EXECUTIVE OFFICER

MR. AMIT AGARWAL, CHIEF FINANCIAL OFFICER

MR. VIVEK PABARI, HEAD - INVESTOR RELATIONS

Moderators: MR. ADITYA SURESH, MR. BAIJU JOSHI, MACQUARIE CAPITAL

MODERATOR:

Good evening, everyone. Welcome to the Q1FY25 Earnings Call of Delhivery Limited, hosted by Macquarie. Before we start, Delhivery would like to point out that some of the statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. Kindly note that this call is meant for investors and analysts only. If there are representatives from the media, they're requested to kindly drop off this call immediately.

To discuss the results, I'm pleased to welcome Mr. Sahil Barua, Managing Director and Chief Executive Officer; Mr. Amit Agarwal, Chief Financial Officer; and Mr. Vivek Pabari, Head of Investor Relations at Delhivery. As a reminder, all participant lines will be in listen-only mode and participants can use the raise-hand feature to ask any questions post the opening remarks. I thank the management team for providing Macquarie the opportunity to host the call. I now invite Mr. Sahil Barua to take us through the key highlights of the quarter, post which we'll open up for Q&A. Thank you, and over to you, Sahil.

SAHIL BARUA:

Thank you, Aditya. Thank you, Macquarie team. Thank you to all of you who've joined our earnings call this Friday evening. As always, we'll begin with a short presentation on financial and operational highlights from the quarter that's passed and then we'll be happy to take questions. The broad summary for the quarter is we've seen a quarter of growth from Q4 last year. Significant growth in our B2B businesses, both in the PTL space and the Supply Chain Services space, and steady volume growth as a business, with an improvement in profitability across all of our core businesses. At this time, I'll invite our CFO and my colleague Mr. Amit Agarwal to actually walk us through the presentation, and then I'll be happy to take questions after that. Over to you Amit.

AMIT AGARWAL:

Hi. Good evening, everyone. We had a fairly steady and profitable start to the fiscal year, where our top-line grew by about 13% on a Y-o-Y basis and our EBITDA for the quarter was at 4.5% and the adjusted EBITDA was at 1.7% for the quarter. Express Parcel service EBITDA remained stable at 18% while there was continued improvement in Part Truckload business Service EBITDA to 3.2%. Express Parcel business grew across all non-large marketplace segments and within that, we also grew significantly within the heavy goods category, about which we'll talk more later in the call.

Part Truckload business grew 25% Y-o-Y on back of both volume increases and yield improvements. SCS business growth was 26% Y-o-Y due to a seasonally strong quarter for air conditioning customers and we have a robust pipeline of customers across several sectors like auto, electricals, and FMCG. Overall revenue grew to 12.6% Y-o-Y basis and 4.7% Q-o-Q basis. We did 183 million parcels in Express Parcel, which represented a growth of 0.6% Y-o-Y and 4.1% Q-o-Q. Part Truckload business was just short of 400,000

metric tons of load on the back of 16% Y-o-Y volume increase and 3.9% Q-o-Q volume increase.

EBITDA was at Rs. 97 crores or 4.5%, while the adjusted EBITDA was at Rs. 37 crores or 1.7%. Both these metrics have improved in a range of low to mid-single digits on both Y-o-Y and Q-o-Q basis. PAT was Rs. 54 crores for the quarter or 2.4%. This includes a positive impact of about Rs. 39 crores, while we have moved from WDV depreciation method to a straight-line method and Rs. ~20 crores reversal on ESOP cost for employees who left the company in the past quarter. There was a Rs. 5 crores exceptional cost item as well. Excluding all these items, the PAT was breakeven for the quarter on a like-to-like basis compared with previous quarter.

We continue to operate our business on a steady network and infrastructure, with no material capacity additions. While growing the business, we have expanded our customer base importantly from 33,000 customers to nearly 35,000 customers this quarter. All other infrastructure metrics have remained stable or have slightly been geared for efficiency, while the team size and partner size and fleet size have improved in line with the business.

In Express Parcel, we have grown our revenues Y-o-Y 6%, while Q-o-Q 5%. The volume increase Y-o-Y is 1% and Q-o-Q is 4%. As I mentioned earlier, this is due to a higher mix of heavy goods in our business on a Y-o-Y basis due to which yield has expanded. Part Truckload saw a revenue increase of 25% Y-o-Y and a freight tonnage of 16% Y-o-Y, coupled with 8% yield improvements, which has resulted in 1% improvement in our service EBITDA margin in this business to 3.2%. Yield improvement has been an outcome of efforts on pricing and mix improvement in this business. Truckload services witnessed a 19% growth Y-o-Y basis and a 10% de-growth Q-o-Q due to selective bidding in RFQs. Supply Chain Services grew 26% Y-o-Y basis due to seasonally strong quarter for air conditioning customers. And Cross-Border has grown 2% Y-o-Y and 39% Q-o-Q. Most of the increase Q-o-Q in Cross-Border is on the back of both volume and yield increases in the ocean freight market that we have witnessed.

The overall service EBITDA for the business is at Rs. 258 crores or 11.9%, which represents a 1.7% improvement on a Y-o-Y basis and 40 bps improvement on a Q-o-Q basis. The Express Parcel service EBITDA margin has held constant on a Y-o-Y basis, while it has expanded by about 60 bps on a Q-o-Q basis. Part truckload service EBITDA margin continues to improve as we improve our customer mix and efficiency in operations and it is at 3.2%. In Supply Chain Services, our service EBITDA margins were 4.4%, which were slightly below 6% last quarter, primarily due to increase in trucking and manpower cost due to sudden spikes in demand for services in the quarter. Our corporate overheads have remained consistent in a range of about Rs. 215 crores to Rs. 220 crores, and they are at about Rs. 221 crores. This is after the impact of wage inflation that we passed to the employees at a company level. And as a result, the adjusted EBITDA margin for the company is at Rs. 37 crores, or 1.7%, which is 3% higher than the same period last year.

Adjusted EBITDA increased to Rs. 37 crores in Q1 FY25, which was negative Rs. 25 crores same period last year, and represents roughly about 3 percentage point improvement on a Y-o-Y basis, and Rs. 16 crores improvement or 0.7% improvement on a Q-o-Q basis.

So overall, revenue from services increased from Rs. 2,076 crores last quarter, or Rs. 1,930 crores a year ago in the same quarter, to Rs. 2,172 crores, which is 4.7% increase Q-o-Q or 12.6% increase Y-o-Y basis. Most costs increased in line with the volume increases in the business, with minor efficiencies coming in on freight handling and other expenses for the business. There are two-three critical items I would like to point out here, that share-based expense, dropped from Rs. 49 crores to Rs. 21 crores from previous quarter to this quarter due to Rs. ~20 crores reversal for ESOP charge on account of employees leaving in the last quarter. We have both performance and time-based stock options, so this was a contribution coming in from both performance and time-based options, which were lapsed and added back to the pool. And there is a property, plant, and equipment depreciation change in the quarter, where it was Rs. 83 crores a year ago to Rs. 44 crores this quarter due to movement in depreciation policy from WDV to straight line method. We have given more details in annexures on what is a like-to-like comparable for change in depreciation policy and how this affects this year, rest of the quarters, and the future years. Broadly, there is roughly about Rs. 180 crores positive impact expected in depreciation from prior period CapEx into FY25, and then there is about a Rs. 40 crores improvement next year, after which it is a slightly negative impact. This, as a result, has led to overall profit after tax of Rs. 54 crores for the company in Q1 of FY25.

SAHIL BARUA:

Thank you. Aditya, happy to start taking questions.

MODERATOR:

Sure. Thank you, Sahil. We'll now begin the Q&A. I request all participants to use the raise-hand function to ask questions. We'll take the first question from Sachin Salgaonkar. Sachin, please go ahead.

SAHIL BARUA:

Yes Sachin, if you are saying something, we can't hear you.

SACHIN SALGAONKAR:

Yes. So, Sahil, I just got an option of unmuting myself, so I did unmute myself. Thanks again. I have three questions. First question, Amit, I wanted to understand any specific reason for the change of D&A methodology from WDV to straight-line.

AMIT AGARWAL:

Sure, Sachin. There are a number of reasons why we chose to move to the straight-line method from the WDV method. Number one is to be in line with our industry comparables. When we looked at most of our competitors, they are on a straight-line method. Number two, when we adopted the WDV method many years ago, Delhivery was entering into a CapEx cycle where we were not 100% sure of how the asset quality would turn out over its life, how the performance would evolve over the life of an asset. And hence, we thought that it would be appropriate for us to more aggressively depreciate these assets in our books. However, given we have operated our first generation of sorters, which were much lighter in quality versus what we deploy now, those assets have lasted well over 9 years for us. And the higher quality equipment that we are now buying and putting in our facilities is expected to last much longer than the useful life of assets that we have assumed in our books.

I also want to point out that we have not made any change to the useful life or the residual value of any asset type in our books for any of the assets. This reason coupled with the fact that our maintenance costs for these assets is within what our AMC costs agreed with the vendors is for the useful life of assets, we do not see a reason for WDV being the right method. Also, the disadvantage of WDV method is that, when you have a bit of a lumpy CapEx, it tends to distort the profitability of the business on the face value. None of this changes frankly on a cash flow basis, whether we choose WDV or SLM.

SACHIN SALGAONKAR:

Got it. Thanks, Amit. Pretty clear. Second question was mainly on the Express volume shipments. Is it fair to see that the worst is over and we should see normalization of volumes going ahead and perhaps a move back to a strong Y-o-Y growth in terms of shipments out here?

SAHIL BARUA:

It's always a difficult question, given how volatile this market is. I think though we had indicated that we expected to see growth in this quarter and we have delivered that despite the quarter being fairly volatile for the industry at large. The next quarter, as you're aware, Sachin, is also going to contain the peak period, and at least indications so far are that the peak period is likely to be a period of fairly decent growth for the industry. So, I do think that our volumes leading into this quarter and beyond should be strong.

That said, I think, at the platform level the strategy is fluid and as it changes over the next couple of quarters, I think, we'll wait and watch. But let me put it this way. I anticipate that our steady state volumes will continue in line with what we forecasted, which is sort of annual growth rates in the e-commerce market of between 15% and 20%. And our numbers should be broadly range bound as well.

SACHIN SALGAONKAR:

Got it, Sahil. Pretty clear. And my last question is, one of the companies yesterday, when they reported numbers stated that quick commerce is gaining market share also at the expense of e-commerce. And they had some pretty aggressive targets in terms of the number of dark stores they are opening. So, the question to you guys is, is Delhivery doing something to piggyback on the last-mile logistics from the quick commerce perspective? I do know that certain warehouses are being leased from you guys, but anything we could do to capitalize on the quick commerce growth opportunity.

SAHIL BARUA:

Yes. I'm glad you asked that question. I think on quick commerce or rather, let me put it this way, on rapid in-city delivery for e-commerce companies, we've launched a new product. We've run the mother warehouses in the past for quick commerce firms, but the intention is also to launch a network of shared dark store warehousing, which will be available to e-commerce companies to use on a multi-tenant basis and then to provide a rapid local delivery basis that fulfillment architecture. That said, I think the consumer need for quick commerce, especially on the grocery side, while is fairly established, I think on the e-commerce side, as we look at the market, we still view it as being relatively sort of narrow in terms of its category penetration and its geographical penetration.

To give an example, Sachin, first of all, certain categories, for example, like apparel, categories like heavies, don't necessarily lend themselves to a quick commerce model at all. One of the fundamental tenets of quick commerce is that the inventory underlying quick commerce has to be fast-moving inventory. The reality of e-commerce is that a lot of the inventory is not fast-moving inventory. So, to give you an example, Meesho as a marketplace platform doesn't necessarily lend itself to a quick commerce format. And when you add that up across categories, marketplaces, the long tail that's available online, our view is that the actual volume that's at risk on e-commerce actually is likely to be pretty small. And so, I don't think 30-minute or one-hour sort of delivery timelines are going to massively disrupt the broader swath of e-commerce. I think there are a set of narrow categories, and even within that, a set of narrow SKUs within those categories, where the model makes sense. We will provide dark stores. We will also provide a delivery service out of those dark stores. And to the extent that e-commerce companies want to use it on a multi-tenant basis, we'll help them variablize that cost. But I don’t think that's going to be a very significant driver of revenue for us in the short or the medium-term.

SACHIN SALGAONKAR:

Noted. Pretty clear, Sahil. One last small follow-up out here is, in the past, from what I understand, the unit economics were not fitting in this last-mile logistics. In the new model, what you guys are looking to do, presume the unit economics will be better, or is it something similar in terms of what we had thought in the past?

SAHIL BARUA:

Well, unit economics of trying to deliver a kajal in 20 minutes by itself to a consumer in Bombay are never going to be very good. And so, that's not what we're aiming for either. I think we have to distinguish between sort of quick commerce and allow me to create a sort of magical category here, which is rapid commerce, which is something like maybe four-hour delivery or two-hour delivery in the metros. The unit economics for that, which allow a certain amount of consolidation and a certain amount of route optimization are still positive. I don't believe that the unit economics for sub-one-hour or sub-30-minute delivery for low-value products with no significant sort of value density and distances higher than three or four kilometers in an urban environment, like India, are going to work out.

SACHIN SALGAONKAR:

Got it. Pretty clear. Thanks a lot.

MODERATOR:

We'll take the next question from Vijit Jain. Vijit, please go ahead.

VIJIT JAIN:

Yes. Hi. Thanks. Just following up on that question from Sachin, so basically if I understood this right, you're going to offer a network of warehouses and dark stores to multiple companies and you would do fulfillment from warehouses to dark stores, or are we talking about last-mile delivery as well here?

SAHIL BARUA:

We already do fulfillments from warehouses to dark stores, but also as an example into retail and into distributors, this is going to be a service, which also connects the last-mile.

VIJIT JAIN:

Okay. Got it. And Sahil, just a little bit more color would be helpful on how this works in providing warehouse and dark stores to multiple companies? What are we talking about here in general, can multiple companies use the same dark store?

SAHIL BARUA:

So, it's essentially the process of creating micro fulfillment for most direct-to-consumer brands and creating a network of standalone dark stores is going to be too expensive. The simple reason is that capacity utilizations are very difficult to manage, so you could either end up with a situation, where you over-inventorize the dark store at the last-mile, which is going to lead to the weight of the real estate cost and the storage cost of a fulfillment center in city, which will be at the bare minimum 2.5x the cost of a larger fulfillment center, which is outside the city. Alternatively, you will end up with a location, where you are paying rent for a large amount of space, while stocking a very small amount of inventory.

So, the idea behind Delhivery’s dark store network, which is going to be the same as the idea behind our fulfillment center network is to allow companies to variablize that cost. If we've got six customers, for example, in a location, who are filling up a dark store, they can all sort of share that infrastructure, variablize their operating expenses, without having to bear the risk of either underutilization or capacity management.

VIJIT JAIN:

Got it, Sahil. And Sahil, do you anticipate some of the largest of these quick commerce companies to participate in this as well? Or, do you think this is something that will see a more reception from some of the smaller guys, which are trying to catch up?

SAHIL BARUA:

Largest of the quick commerce companies in the sense? Sorry, can you just specify?

VIJIT JAIN:

The top two, three most well-known companies, do you think will use multiple tenant dark store model with you is what I am trying to understand?

SAHIL BARUA:

You mean Blinkit, Zomato etc. No, I don't anticipate that they will be immediate consumers of our dark store infrastructure. In fact, I'd argue, for them the problem that exists, and a little bit of a digression from our strategy is, ultimately with limited shelf space. Their problem is not how do we bring more people into the dark store, it's really selecting what to put in a dark store, which is probably already full. So, I don't anticipate them being customers. And also, it's a very different kind of inventory. Moving as an example, rice and sugar, with let's say 400 SKUs, which belong to a cosmetics company, are going to be pretty different sort of from an engineering and delivery standpoint. Ours is designed very specifically for direct-to-consumer companies and potentially some product lines at the larger marketplaces side.

VIJIT JAIN:

Just one last question, if I can? Because I think Amit mentioned some reference to heavy goods that you would talk about later on the ecommerce side, I just wanted to make sure that's covered. Thank you. I'll jump back into the queue.

AMIT AGARWAL:

So, Vijit, as I mentioned our yield in e-commerce parcel has gone up on a Y-o-Y basis by about 5.5%. This yield has primarily increased on back of a higher mix of heavy goods category. There are certain initiatives that we are undertaking, which could potentially further increase the mix of heavy goods in our business.

I also want to point out that this is one category, which is very unique to Delhivery amongst the 3PL that we service, while our competitors are either not there or insignificant, because of the LTL capability that we have. So, the first-mile and last-mile capability between the two are shared.

VIJIT JAIN:

Got it. Great. Thanks, Amit. Those are my questions. I'll jump back into the queue.

MODERATOR:

We'll take the next question from Gaurav Rateria. Gaurav, please go ahead.

GAURAV RATERIA:

Hi. Thanks for taking my question. The first question is on Express Parcel. You did talk about growth coming from non-marketplaces. Could you elaborate on how broad based this growth was across different categories within the e-commerce vertical? And also, I know that you started certain initiatives around C2C and other things, which are also part of the Express Parcel. Just want to understand how big those initiatives have become as percentage of the revenue or as percentage of the total volume for the segment?

SAHIL BARUA:

Sure. In terms of overall growth and volumes from the longer tail of e-commerce, which is essentially anybody, who is not in a marketplace, I think we've seen growth across all categories and across all client segments. In fact, to be fair, we've also seen growth with the marketplace segments, but the growth across the non-marketplace segments is fairly secular. Vertical-wise there's not that much of a split, to be honest, because we've seen growth across all categories, both from direct-to-consumer, where they're more vertical and even from the absolute long-tail or our SME business, where we have probably close to about 10,000 different customers on the SME side. So, it's been overall fairly good to see, because it's been spread across categories, across customer sizes, across customer types, wherever there are non-marketplace.

In terms of the consumer-to-consumer shipping, I think, there are two parts to what we do. One part is obviously via the Delhivery Direct application, which is where consumers can book packages or freight. We're also launching another service, where they can also book mini trucks, as an example, in some locations directly using the application. That continues to see sort of fairly steady growth Q-o-Q. It's a bigger driver, to be honest, of our brand perception. It's a driver of our yield and it's also a driver of profits. The other thing that we're doing, of course, is also essentially creating offline resellers. So, think of it as similar to a franchise program, Pan India, where a local entrepreneur or a local courier shop can effectively direct volumes into the Delhivery network. This today has been growing for us, we don't break out the numbers exactly, so unfortunately, I can't reveal those, but this has been growing for us Y-o-Y. The plan is to expand the penetration of our franchise network

and to deepen it across states in India, which is all of the locations, where we don't have direct business development reach, but our franchise partners have the ability to create SME volumes and to direct consumer volumes into us. Both of these are fairly solid drivers of profitability and revenue for us.

GAURAV RATERIA:

Got it. Second question, any sense if you could give us on how our market share has trended this quarter or last quarter or last six months within the 3PL segment? Have you been gaining market share or it's been pretty steady?

And a bookkeeping question for Amit, the depreciation, amortization has fallen quite significantly Q-o-Q. Even if you adjust for the Rs. 39 crores that you talked about because of the change in the methodology, the fall appears much sharper. So, what would have been the reason for the fall? Thank you.

SAHIL BARUA:

Sure Gaurav. Very quickly on market share, I think, the big move in the market or the big structural change in the market over the last several quarters, which you're aware of and we've discussed earlier, has obviously been, Meesho internalizing a certain percentage of logistics themselves. I think that's led to a bigger rearrangement of the overall market. Inter se across the third-party logistics companies, there hasn't been any significant inter se movement of market share. So, our position as the largest 3PL continues.

Book-keeping question, I'll let Amit answer.

AMIT AGARWAL:

Gaurav, we have a bit of seasonality in our CapEx cycle within the year. You'll note that Q1 and Q2 are the periods, when we basically start commissioning CapEx, and Q3 and Q4 are the periods when that CapEx is completed on our books, when its depreciation starts. So, that seasonality you should expect to see this year as well. To put this in perspective of numbers, the CapEx in the Q1 was about Rs. 80 crores, the fresh CapEx that was done. And while last year, I think, we would have done CapEx of close to about Rs. ~550 crores for the full year. So, as the CapEx catches up in the second half, you will see a rise in it in the second half.

MODERATOR:

We'll take the next question from Abhishek Banerjee. Abhishek, please go ahead.

ABHISEK BANERJEE:

Hi. This is Abhisek Banerjee. Quickly on the question of quick commerce stores, I mean of entering the quick commerce market. Zomato is now talking about 2000 dark stores by

the end of FY26 right And you yourself spoke about the kind of density that you need of your store network in order to make the unit metrics kind of work. So, if I think that you will build as dense a network as, say, one of these people, then you are basically having to build about a minimum of 1000 dark stores over the next couple of years. And even if I take a CapEx cost of about Rs. 1 crores, that means another addition of…

SAHIL BARUA:

Abhishek, let me cut in. The answer to that is, no. Because the delivery radii of the dark stores that you're talking about for 15-minute delivery of groceries, and as I'd mentioned, two to four-hour delivery of e-commerce products is not the same. So, we are not going to have to build out a 1000 dark stores to service a city with two-hour delivery. That's one. The second is, do bear-in-mind that we already operate 3,450-odd delivery stations across the country. So, we do not anticipate that we're going to have to build out anywhere near 1000 dark stores, nor will we have to incur significant CapEx to do so.

ABHISEK BANERJEE:

Understood. That's helpful. Second is on the market share question. From what I understand is, of course, the part about insourcing has been hurting the overall revenue growth in Express Parcel for you. That is understandable. But any timelines as to how long you think this will continue?

SAHIL BARUA:

I think the big move, Abhishek, has really been the growth of Meesho's self-logistics, in terms of the other marketplaces, they've insourced previously as well. And per se, I think, their insourcing versus outsourcing strategies are fairly stable, and we are materially important and large partners to both of the other marketplaces. In Meesho's case, I can't really comment for how long or what the exact strategy with their delivery network is going to be. But I can tell you that we are a large and fairly high-quality partner to the firm, and they require high-quality logistics to be delivered to their consumers. And as their consumers mature and consumers trade-up and demand fulfillment experiences, which they are able to receive on other marketplace platforms, Delhivery is a natural choice.

ABHISEK BANERJEE:

Fair. So, is there any data, which shows the difference in SLAs between you and, say, something like Valmo?

SAHIL BARUA:

Unfortunately, I am not aware of what Valmo's published service levels are. I am aware of our service levels. And I think the fact that they are pretty robust and are in line with

consumer expectations is reflected in our market share of the third-party market and our share with the other two large marketplaces.

ABHISEK BANERJEE:

Sir, just the last question on the employee expenses, generally there's a bump-up in this quarter, this time it didn't show through. So, are you changing the increment cycle or what's happening there?

SAHIL BARUA:

No, there's no change in the increment cycle. It's the standard increment cycle, Delhivery's increment cycle ends in March, and Q1 is when we essentially take the cost of wage inflation.

So, we had mentioned earlier to the market as well that when we went public also, we said that we don't anticipate a significant increase in our wage costs overall. We are built out to deliver a much larger business, a much larger revenue, and we don't anticipate the need for us to hire additional people and to inflate the wage cost.

MODERATOR:

We'll take the next question from Sachin Dixit. Sachin, you may please go ahead.

SACHIN DIXIT:

Hi. Thanks. Congrats, Sahil and Amit, on a great set of results. I had two quick questions. The first one was with regards to, you mentioned that there was a contract with this large customer in the last earnings call. Can you talk a bit about this contract, like, were there any price cuts involved as part of getting this contract? And post that, have you seen their insourcing stabilize at those levels, or is it still continuing to rise?

SAHIL BARUA:

In terms of the contract, I obviously can't get into specifics about the contract. But suffice to say, you've seen our yield, you've seen that the margins overall have improved between Q4 and Q1. So obviously, it's not a reductive contract as far as Delhivery is concerned. I think the important thing in any contract that we negotiate with any customer is, how to link pricing that we give them, which as I mentioned before, our objective is to reduce the cost of logistics for all of our customers linked to the volume that they provide to us, and that's the contract that we negotiate, not just with any single marketplace, with every one of our 35,000 customers. And, as we negotiate contracts, of course, the additional thing that we negotiate with all of our customers is also equivalently, should there be an adverse mix that they provide to us then we're protected against that and that's sort of the standard contract that we've signed. So, you can see that reflected in our unit economics in any case.

SACHIN DIXIT:

Fair enough. So, have you seen any changes in the insourcing trajectory of Meesho, or you're not aware of those changes?

SAHIL BARUA:

I think we're satisfied with the volumes that we're getting and they're in line with our expectations, but if they've been reducing the share that they're providing to other third-party partners I would be unaware of that.

SACHIN DIXIT:

Understood. Second question, more like a housekeeping question. So, all this ESOP reversal that was taken this quarter, wasn't this being done in earlier quarters as well or this was the first time that we did that?

AMIT AGARWAL:

This was done every quarter. There was a KMP exit last quarter due to which this was affected.

SACHIN DIXIT:

Understood. Thanks so much. Just my final question on the Rs. 80 crores CapEx that you mentioned for this Q1, can you roughly provide a breakup of that as well?

AMIT AGARWAL:

Sure. Just a minute. We've got vehicles worth about Rs. 29 crores. These are Volvo tractors. Automation of Rs. 4 crores, plant and machinery of Rs. 26 crores, furniture & fixtures and office equipment of Rs. 20 crores.

MODERATOR:

We'll take the next question from Aditya Bhartia. Aditya, please go ahead.

ADITYA BHARTIA:

You spoke about market share in 3PL market remaining the same and given that Meesho has been insourcing a fair bit, is it fair to assume that market shares of the overall online sales would have gone down in the last year or so? Not only for you, but pretty much for everybody else as well.

SAHIL BARUA:

Yeah, I could suggest that.

ADITYA BHARTIA:

And in the conversations that you've been having with Meesho, are you getting some sense about how exactly their strategy about insourcing is going to play out from a slightly longer-term perspective? Especially because while planning your capacity, I guess at least some of your larger customers would be giving you some indications?

SAHIL BARUA:

No, I think, among the many things that we discussed with our customers, as I mentioned their strategies are fluid, their strategy on insourcing, I think, is also changing. So, it's something that doesn't seem to be stable. The way we look at it is pretty simple. We provide a high-quality service at a cost that is extremely attractive to all of our customers including the ones who insource and not just limited to any single market place. Our objective is to meet our growth objectives and to meet our economic objectives and to protect those. Outside of which, in our case, do bear in mind that, while we certainly provide an extremely important service to the e-commerce industry, it's not the only business that we do. And our ability to provide that high quality service to e-commerce companies is also bolstered by the other businesses that we run. So, we are pretty confident about our competitive advantages overall, irrespective of what the change in strategy for any single customer of ours might be, and we don't have a very high degree of dependence on any single customer anyway.

MODERATOR:

We'll take the next question from Mukesh Saraf. Mukesh, please go ahead.

MUKESH SARAF:

Yes. Hi. Good Evening and thank you for the opportunity. My first question is on Meesho insourcing itself. So, is it fair to assume that Meesho would be insourcing most of the high-density locations, initially at least? And, apart from us getting the remainder, does it also affect the quality of business we get from Meesho right now, low density locations, etc.?

SAHIL BARUA:

No, that would not be the case. We receive volumes across all of our locations. Well, there are two things to bear in mind. One is capacitating a network for what you might think of as a high-density location is also not a trivial exercise. The reality is that e-commerce volumes are fairly volatile at the last-mile. It's really just the law of standard deviations. I might be able to predict that my volumes in the city of Bombay will vary by only about 15% on any given day, but that doesn't mean that my volumes, for example, in the micro locality of Chembur will not vary by 600%. And therefore the ability to capacitate at the extreme last-mile is extremely difficult. So, either you have to run networks which are under-capacitated and higher cost, which as you're aware of, some of the other insource players have discovered over the last decade or so. Or alternatively, if you're capacitating

to meet a cost objective, which if you're selling low AOV products, you have to do, then ultimately you have to outsource a lot more. It's unfortunately not possible to escape that math, so, really merely take high density locations and outsource the others.

MUKESH SARAF:

Got that. Got that. Thank you for that. The second question is, again, related to this. I mean, now that we'll see the volumes from Meesho come off and obviously the D2C share for us goes up, we're also seeing in the market that some of the traditional logistic players in the D2C segment are pricing very aggressively. Do you see this kind of impacting us going ahead on the D2C side of it? Aggressive pricing from the traditional competitors?

SAHIL BARUA:

I am not sure about traditional, so I'm going to assume that you're speaking of perhaps DHL, DTDC and so on.

MUKESH SARAF:

Yeah Bluedart kind of names.

SAHIL BARUA:

Yes. Sure. So, look at the end of the day, the fact that somebody is offering you a lower price, if it's not backed up by a high-quality reliable service, the lower price is not enough. I mean no customer is going to say that I am happy to take more delays or I am happy to have to work with higher returns as long as you give me a lower price. Ultimately, e-commerce companies want to deliver reliably to customers. Where what we index on and what we've always indexed on is the quality of our service and the quality of our delivery, and also the reliability of our delivery, and the ability to absorb the inherent volatility that e-commerce contains at this point in time. So, we have not actually faced any particular headwinds from any traditional or other competitors in terms of pricing.

The other thing also to remember and we mentioned this before, we are very confident about the fact that we are the lowest cost operator in this space. Not only are we the lowest cost operator in this space, over a period of time as we have discovered cost efficiencies in our network, we have passed those benefits on to our customers with time. And as a consequence of that, we are very confident that the pricing that we provide to customers, where we are able to make the margins that we declared, most of our competitors if they are pricing at those levels or below that, will be unable to make money. So, even if they are sort of in a zone where they are pricing below us, the fact of the matter is they won't be able to sustain it for very long if at all.

MUKESH SARAF:

Sure. And just quickly on the PTL business. I mean you have obviously recorded very strong growth, while the industry doesn't seem to be growing that strong on PTL. So, could you kind of give some sense on how we have expanded, say probably pin codes or collection centers, any data you can provide on where we were say last year, first quarter to now in terms of reach or like I said collection centers?

SAHIL BARUA:

Apar/Vivek, can you just go to that slide please? The slide with all the statistics on the network please. So, as you can see Mukesh, there's been no change in the network. We still service more or less exactly the same number of pin codes and we service through the same.

MUKESH SARAF:

No. So, I meant specifically for the PTL. So, in this obviously there will be certain pin codes that you'll only be servicing PTL.

SAHIL BARUA:

No. No. No. So, Mukesh, that's why our network is unique, because it's integrated across our PTL and our Express services. So, serviceability for PTL is exactly the same as serviceability for Express.

MUKESH SARAF:

Okay. It's not just the mid-mile that you're able to integrate, you're able to integrate even the last-mile as well. It's what you're saying?

SAHIL BARUA:

Correct. Now, the difference is, if you look at freight service centers, which we have 120 off, the highest density PTL locations are serviced by a format called a freight service center, which is uniquely designed to handle freight and uniquely designed to handle heavy products. I imagine that there is a location, which we are servicing, I'm making this up, but let's say 15 tons of load a day. 15 tons of load a day will go to a freight service station. But that doesn't mean that we won't have a customer, who, for example, wants to send 300 kilos of load to a location that is not viable to service by our freight service station. In that case, what happens is, this will get directed into our Express delivery network, where we have 3,567 of these centers. So, in fact, the Express delivery network is a humongous advantage, when it comes to serviceability for us versus traditional industry, which tends to think of a lot of these pin codes as ODA pin codes.

MUKESH SARAF:

Okay. Interesting. Got that. Thank you so much. I'll get back in the queue.

MODERATOR:

Thank you. We'll take the next question from Manjeet Buaria. Manjeet, please go ahead.

MANJEET BUARIA:

Yes. Thank you. Sahil, in the past, you had mentioned that even if we sort of disintermediate our first, mid and last-mile, we'll actually still be the lowest cost player in the industry. So, in that case, shouldn't we be winners on Valmo as well? Because we should be the most competitive to bid on that platform. I just wanted your thoughts on that.

SAHIL BARUA:

But why would we do that? I mean, we already provide a fully integrated service that the principal in question can utilize at an extremely competitive cost with an extremely high service level. The incentive for us to unbundle ourselves to participate in a platform is essentially zero. So, a better answer is actually for the platform in question to outsource the volumes to us entirely. So, I don't anticipate that we will unbundle ourselves to participate piecemeal.

The second thing to bear in mind is that the quality of service of a disintermediated network is by definition lower than the quality of an integrated network. Because I have the ability today to make decisions all the way from the moment a parcel is picked up to the moment a parcel is delivered through a single stream, which is Delhivery. If you have to pass-on packages continuously across multiple different partners, there's an inherent loss of service and inherent loss of traceability, and an inherent overcapacity that has to be built at every node. So, there is a reason why logistics companies across the world historically for a hundred years have provided integrated services. It is because there's a certain power that comes from integration. So, we don't believe it's in the best interest of our customers for us to disintermediate ourselves.

MANJEET BUARIA:

Very clear. And the second question, Sahil was, whatever Meesho is trying to do, my understanding and I could be wrong, is that other 3PL players are even more reliant on Meesho than we ever have been. So, just your thoughts on industry consolidation, because they should be getting hit way worse than we are. So, from an industry perspective, you have some thoughts on when do we see probably the less competitive capacity go out of the system? Thank you.

SAHIL BARUA:

Sure. I've spoken about this before. I think, as I mentioned, for any customer of ours, the reality is that the mechanism through which you manage your risk across multiple carriers is not by launching a carrier yourself, but essentially by working closely with the existing carriers. In this situation, whether you call it self-logistics or not, effectively, another carrier

has been launched into what already was a fairly sort of shallow pool. It has, of course, affected people who had extremely high dependence on the platform in question and potentially at pricing that also is most likely to be unviable. I think consolidation is inevitable in this situation. The question, of course, that I can't answer is, how long people will continue to fund businesses in this state.

Also, the reason why this is necessary, I believe, is that over a period of time, India will produce integrated logistics companies. For a variety of reasons that I mentioned in the past, the economics of running parcel-only networks that are non-integrated are significantly worse than the economics of running integrated networks. The cost curve flattens out too quickly, when you're running a parcel-only network. And so, I do believe that it's important for industry consolidation to happen. As to the timelines, I think, to be perfectly honest, your guess is as good as mine. But on a lighter note, today is as good a day as any other.

MODERATOR:

We'll take the next question from Achal Lohade. Achal, please go ahead.

ACHAL LOHADE:

Yes. Good evening. Thank you for the opportunity. My question was on Supply Chain Services. If you could talk about where are we in the journey? What kind of growth can we see here? What kind of customer addition we have seen? And in terms of the offering, compared to the other supply chain players, where do we stand in terms of the offering? Have we covered most of it or do we have a significant element to catch up?

SAHIL BARUA:

Sure. Broadly, on the Supply Chain Services business I mentioned a lot of the new starts that we had, which were to come in, both from traditional sort of the B2B industry, there are specific verticals, for example, in the auto and auto spare parts world, in the wires and cables world, the FMEG world, we had contracts that were starting up. Those are obviously scaled up in this quarter. And obviously, for our customers in the consumer durables space, this is a seasonally high quarter. So, a combination of those factors obviously has delivered solid growth to us. In terms of our pipeline, I think, the pipeline is extremely robust, both from the B2B world, where we continue to make inroads into our focus categories, which are, as I mentioned again, auto, auto spare parts, industrial goods, wires and cables, consumer durables, FMCG and FMEG. But outside of that, the other area that's seen significant growth for us is integrated fulfillment for e-commerce, where we have the ability to provide effectively, as I mentioned before, think of it as a white-label prime service, which is a combination of variable cost fulfillment coupled with extremely high-speed delivery in the city, and we've seen demand for this sort of rise quite significantly in the last quarter.

In terms of the breadth of the offering itself, I think, Supply Chain Services, whether we offer it or somebody else offers it, is fundamentally a combination of warehousing and transportation operations spread across primary logistics and secondary distribution or delivery to customers, and we provide a comprehensive set. Typically, traditional players have not done the B2C element of this, they've largely focused on the B2B element of it, so the differentiation or the increased breadth of our service is the ability to knit B2C and B2B both.

The other, of course, differentiator between our service and traditional services is our ability to support multiple tenants in the same fulfillment centers, which essentially, like I'd mentioned on the dark store side earlier, allows us to enable companies to variablize their operating costs with the supply chain quite a lot, as opposed to sort of making heavy investments in capacity. And that's sort of a pretty big differentiator, apart from which, from a technology standpoint, we have the ability to enable companies to virtualize their inventory across all of the fulfillment centers that we serve for them. And an order management system that essentially enables them to direct the right set of orders to the right fulfillment centers, and therefore, achieve an optimal mix of inventory and the lowest cost of transportation.

So, it's a fairly comprehensive set of services that encompasses not just the physical aspects of storage and transportation, but also all of the information systems that are crucial to supply chain decisions. And then, of course, there's the added advantage of visibility, the tracking, and the reporting services that we provide. Traditional players also provide contract logistics, which is the one area I should point out we do not provide. So, we do not do a service, where we're simply providing manpower effectively, while the systems and the management are being run by the principal themselves. So, that's what we don't do.

ACHAL LOHADE:

Understood. That's very helpful. Thank you. Those were my questions. Thank you.

ADITYA SURESH:

Sahil, before we conclude the call. This is Aditya from Macquarie, maybe I'll just ask you two questions, please. The first is, on the Part Truckload business, you've been constructive on the formalization opportunities, you've spoken about impressive growth rates here. Maybe if you can just run through your thesis here again?

SAHIL BARUA:

Sure. So, Aditya, on Part Truckload, there are sort of two or three big things to point out. The industry, obviously, while exact statistics are a little hard to come by, because of sort of the express, non-express, PTL, FTL, hazy boundary, broadly our view is, the total spend on Express PTL is easily over $10 billion. If you look at the market, India is a hugely atypical market, which is highly fragmented. Whereas when you look at Part Truckload markets around the rest of the world, they tend to be highly consolidated markets. And the

reason is very simple, which is that, similar to Express, Part Truckload is essentially a network business of consolidation and deconsolidation, which lends itself to large economies of scale. And that's obviously a technology and engineering intensive business. So, our view is that the market will formalize in India. In the U.S., for example, the top five players I suspect will be, I don't have the absolute latest numbers, but will be, let's say, 65%, 70% of the Part Truckload market. I think India will go down that path, because scale leads to efficiency, which reduces cost for everyone.

And secondly, obviously, in India, there's a big shift from unorganized players towards organized players, largely because quality of service improves with large integrated national networks. So, that's broadly our thesis. We don't anticipate any challenges in terms of our ability to grow into this market, as you can see, even in what has been a seasonally extremely weak quarter overall for the Part Truckload industry, we've had fairly solid growth this quarter, which reflects both the quality of the service and our ability to generate and service demand.

For us, the basic challenge that I've spoken about is to slowly increase sort of our top of the funnel activities, both to make more and more customers across the country aware of the fact that Delhivery provides PTL services. I mean, one of the interesting things is despite us being one of the largest PTL players in the country, most people still think of us as an Express denominated business, whereas the reality is we're an extremely large freight network. And the second, obviously, as I mentioned, is to increase our direct sales capabilities and direct sales outreach into Tier 1, Tier 2 and Tier 3 markets. As an Express only player, our business development was really in the beginning, largely focused on places like Delhi, Bombay and Bangalore. But increasingly, as our sales teams have spread, as an example, in the PTL industry, cities like Chennai, cities like Vapi are fairly large markets, and we're expanding our presence into all of those with physical sales. And logically, along with physical sales, we're also building a network of resellers and third-party partners, who can sign up with us. And similar to the C2C franchise business that I spoke about, can sign up and essentially direct freight loads into Delhivery, where it's unfeasible for us to have a direct business development presence.

ADITYA SURESH:

And the related question, Sahil, was that, on freight costs and the fact that you're running this integrated network, freight costs have declined about 180 basis points, 190 basis points Y-o-Y, it's down again about 50 basis points sequentially as measured against revenue. As you scale your PTL business, we'll see how the Express Parcel business shapes up, but should we expect further scale benefits here as you kind of ramp Part Truckload up?

SAHIL BARUA:

Yes, absolutely. As I mentioned before, Aditya, the reality is that our PTL business at the moment, we're very happy that it's now profitable at a service EBITDA level and profitability continues to improve Q-o-Q. But as I mentioned our PTL network is designed to handle significantly more tonnage than we continue to handle at this stage. And so, as

volumes go up through this network, utilization of the network will continue to rise, whether it's the freight service stations, which are designed to handle higher volumes or the hubs which are designed to handle higher volumes. And also trucking, aggregate trucking utilization will increase. Our trailer network will densify a little further from this point on.

And the other thing is, as we are bringing in more PTL business into the network, the densification of loads or essentially the higher weights that we are carrying, themselves have a positive impact on overall costs. And interestingly, Aditya, this has a positive network effect on the Express business as well. It's one of the things that enables us to derive a fairly competitive advantage on Express cost as well, so both the networks feed into each other.

ADITYA SURESH:

Fantastic. And are you able to kind of provide any guidance here, whether on Service EBITDA margin level or any of the margin lines?

SAHIL BARUA:

On Express, as you've seen the margins we are stable at this 18% kind of mark. And as I mentioned before one of the things that Delhivery is committed to doing is to bring down the overall cost of logistics for the industry. And as our margins expand, I think, wherever we have customers, where we believe that offering them a lower price is going to lead to higher volumes for them and consequently for us, we will continue to offer that pricing benefit to them, and we're very happy in the short to medium term with these customers to remain in that 18% to 20% kind of margin range on Express. The PTL business as I mentioned is exactly the same as the Express business but nearly with larger boxes. And so, we do expect that the PTL business will deliver margins, which are in line with the Express business. And potentially as our cost advantages are discovered, we'll see how it goes potentially even higher and that's the trajectory we're shooting for.

ADITYA SURESH:

Fantastic. Sahil, I don't see any other questions in the queue. If you have any closing remarks, please.

SAHIL BARUA:

Great. Well, nothing that hasn't already been said, I think Q1 is historically always one of those difficult quarters for logistics companies and I think we're very satisfied with the overall performance we've had for Q1. There's been pretty significant revenue growth even in what has been a seasonally difficult quarter for the rest of the industry and also obviously the impact of rains, the impact of the elections. So, a very satisfactory quarter. And from a profitability standpoint, as we'd mentioned, our focus has always been to improve the unit economics of our businesses.

Broad summary is that Express continues to grow stably, margins remain stable in that 18% range, the PTL business continues to grow very fast, the profitability trend continues. So, we're also seeing significant sort of improvement in the Supply Chain Services business, and have a robust pipeline from here on. And we anticipate pretty solid growth in SCS business as well. So, overall, a good start to the year. And going into the peak season, I think, we're feeling quite confident and well set for the rest of the year. So, thank you.

Thank you, Macquarie team for hosting us. Thank you all for joining.