Date: August 11, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
India

Scrip Code: 543529

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
India

Symbol: DELHIVERY

Sub: Transcript of Earnings Call pertaining to the Unaudited Financial Results for the quarter ended June 30, 2023

Dear Sir,

This is in continuation to our earlier letter dated August 06, 2023, regarding audio/video recording of the Earnings Conference Call held on August 05, 2023 at 04:00 P.M. (IST) on the performance of the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter ended June 30, 2023.

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

The same is also available on the website of the Company at https://www.delhivery.com/investor-relations/.

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

VIVEK KUMAR
Digitally signed by VIVEK KUMAR
Date: 2023.08.11 17:49:30 +05'30'

Vivek Kumar
Company Secretary & Compliance Officer
Membership No: A 20938
Place: Gurugram

Encl: As above

“Delhivery Limited Q1 FY24 Earnings Conference Call”

August 5, 2023

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

MR. SANDEEP BARASIA, ED & CHIEF BUSINESS OFFICER

MR. AMIT AGARWAL, CHIEF FINANCIAL OFFICER

MR. VARUN BAKSHI, HEAD, INVESTOR RELATIONS

Moderator: MR. VIJIT JAIN, CITI EQUITIES TEAM

VIJIT JAIN:

Good afternoon, everyone. Good day. And welcome to Q1 FY24 earnings conference call of Delhivery Limited, hosted by Citi Research. This is Vijit Jain. 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 any representatives of the media, they are requested to drop off this call immediately.

To discuss the results, I'm pleased to welcome Mr. Sahil Barua, the MD and Chief Executive Officer; Mr. Sandeep Barasia, ED and Chief Business Officer; Mr. Amit Agarwal, Chief Financial Officer; and Mr. Varun Bakshi, the head of Investor Relations. As a reminder, all participants' lines will be on listen-only mode. And participants can use the raise-hand feature to ask any questions post the opening remarks.

Thank the management team for providing us the opportunity to host this call. And I invite Mr. Sahil Barua to take us through the key highlights of the quarter, post which we'll open up for Q&A. Over to you, Sahil. Thank you.

SAHIL BARUA:

Thank you, Vijit, and the Citi team, for hosting us. Thank you all for joining the sixth earnings call from Delhivery this evening. Just a quick check, Vijit and Apaar, that I'm perfectly audible.

VIJIT JAIN:

Yes, Sahil, you are audible.

SAHIL BARUA:

Great, excellent. Thank you. So as usual, we will begin with a short 15 to 20-minute presentation where I'll walk through the highlights of the first quarter of the financial year. And then we'll open up for questions. Apaar, if you can begin.

So before I begin, a quick summary of this quarter is that the positive growth momentum that we saw beginning in quarter 1 of last financial year continues. Quarter 1 of financial '24 is our fourth sequential quarter of revenue growth. In terms of quick statistics, we continue to be India's largest integrated logistics platform. We delivered Rs. 1,930 crores of revenue in quarter 1 from services. This represents a growth of 11% sequentially from the same quarter last year and a 4% growth from quarter 4 of the last financial year.

Do bear in mind that in our industry, quarter 3 and quarter 4 are typically the high water mark quarters. And quarter 1 is sequentially usually our weakest quarter of the year. Despite this, we've actually seen strong revenue growth in Q1. Adjusted EBITDA margin continues to hover at the break-even point. We're at -1.3% for this quarter.

We've seen strong volume momentum in the express business, with a total of 182 million shipments delivered across our express and heavy parcel business in Q1, which represents a year-on-year growth of 19.2%, at the upper end of our estimate of growth for the industry, which was between 16% to 20%, which I'd spoken about last year, and sequentially, versus quarter 4, a growth of 1.2%. Our LTL business continues to recover strongly, both in terms of volumes and revenues. We've delivered 343,000 tons of freight in quarter one of the financial year, which represents a year on year growth of 43.7% versus the same quarter last year and an 8% growth over the previous quarter, quarter 4, which, again, typically is a seasonally high quarter.

Network continues to be stable. We cover 18,530 PIN codes across the country. We continue to have 26,500-plus active customers across our various service lines. Over 50% our revenue comes from customers who use more than two of our services. And we continue to operate over 17 million square feet of spine infrastructure across the country.

In terms of quick statistics that present a snapshot of the business, as you can see, PIN code reach has remained stable throughout financial '23 into quarter 1 of financial '24. We continue to service 18,530 PIN codes. We continue to cover 220 countries through our own network and our partnerships with FedEx and Aramex. We continue to have 26,500 active customers as of this financial year, and operate about 17.5 million square feet of real estate.

We've seen some expansion in quarter 1, as is normal in our business. Quarter 1 is the quarter in which we expand infrastructure, both in terms of spine, hub, and gateway infrastructure and delivery stations in preparation for growth for the rest of the year. Total gateways have expanded to 101 as of quarter 1 fiscal '24. Automated sort centers remain constant at 24.

We've expanded the total number of delivery centers from 2,880, as of quarter 4, to 3,170. This includes both new delivery stations as well as conversion of partner centers into owned delivery stations. So as you can see, the partner centers have declined from 1,175 to 1,039. Higher-volume centers will continue to be converted into owned centers going forward.

We continue to consolidate freight service centers as volumes have gone up. The integration process, which began in quarter 1 financial '23, we had 237 freight service centers, including both delivery and spot on at the time. This has now been consolidated to 128 centers as of quarter 1 financial '24. And we continue to have a team size which grows from 57,000 people in quarter 4 to about 60,300 people as of quarter 1 fiscal '24.

Move on to the next slide. A quick summary of the quarter-- as I mentioned, in the express business, we've seen steady shipment volume growth in what is a seasonally weak quarter. We've seen 19% growth in volumes year on year in express and heavy put together, at about 182 million shipments for the quarter. In PTL, strong growth momentum has continued in Q1. The market has obviously not grown 43% a year. So this represents significant share gain for delivery.

We've also seen 8% growth over a seasonally strong Q4. This is on the back of service levels that continue to be consistently robust. Growth service levels continue to be above 90% despite the impact of rain and other disruptions. And we continue to improve margins in the PTL business through price revisions and actively churning out lower-margin customers.

In the supply chain services business, we won new mandates with a number of marquee clients, which we expect to start reflecting in financials in subsequent quarters. This includes Havells, Tata Motors, Mamaearth, and a number of other customers. Over 50% of our outsourced fleet in mid-mile is now sourced through our Orion Truckload platform, an initiative that we launched around quarter 3 of the last financial year. And going forward, we expect to launch intra-city sourcing on the Orion platform as well.

On the OS1 platform side, we've launched Dispatch One, which is our first SaaS product on the OS1 platform, which we expect to start rolling out to customers starting quarter 3 across India and abroad. We've also consummated an investment in Vinculum, which is aimed at expanding value added services, which is an integrated fulfillment stack for D2C customers across the country. So that's a quick snapshot of the quarter.

Moving on, in terms of overall financials, in quarter 1, we've grown from Rs. 1,860 crores of revenue in quarter 4 to Rs. 1,930 crores, which represents a 4% growth quarter on quarter and 11% year on year. Growth has been delivered both in the express business and in the part truckload business, as you can see on the right. The express business has grown to Rs 1,202 crores of revenue, which is a 14% growth compared to the same quarter last year. And shipment volumes have grown from 152 million shipments for the same quarter last year to 182 million shipments in Q1, which is a 19% growth year on year.

On the PTL side, quarter 1 last year, of course, was affected by integration issues with SpotOn. We've grown revenues since by 34%, from Rs. 259 crores to Rs. 347 crores, and overall volumes from 239K to 343K tons, which represents a 44% growth in volumes and 8% over the previous quarter.

The other businesses have performed well as well. The truckload business has grown from Rs. 109 crores in quarter 4 financial '23 by 20% to Rs. 131 crores in quarter one financial '24, which is also 7% growth over the same quarter last year. Supply Chain Services has grown 10% from the previous quarter, from Rs. 188 crores to Rs. 206 crores. Though compared to the same period last year, we've seen a decline. This is driven by the underperformance of one of our accounts, which has been affected by low offtake of consumer durables in quarter 1.

Cross-Border Services has de-grown from Rs. 57 crores in quarter 4 to Rs. 42 crores in quarter 1. This is largely driven by a change in mix in the business as more of our business continues to come from our ocean freight business as opposed to our airfreight business, and as yields in both air and ocean freight continue to compress.

In terms of adjusted EBITDA, quarter 1 financial '24 stands at -1.3%, which is the bar on the extreme right. Quarter one, as you can see, over the last two financial years and prior to this, is, seasonally, our weakest quarter of the year. So the good news is that overall, our performance in quarter 1 relative to both financial '22 and financial '23 has improved significantly. In financial '22, quarter 1 adjusted EBITDA was at -3.8%. Last year, in the same quarter, we were at -12.5%. This year, we're at -1.3%.

Moving on, in terms of an overall breakup in this table, as you can see, revenues in quarter 1 came in at Rs. 1,930 crores. Overall service EBITDA from services came in at Rs. 196 crores, or 10.2% of revenue, compared to -0.3% for the same quarter last year and 11% in quarter 4, despite the fact that we've been expanding the network in quarter 1. Corporate overhead stood at Rs. 221 crores, largely driven by inflation in wages and an increase in some fixed costs of the network. As a percentage of revenue, they grew from 10.7% to 11.4%. And net adjusted EBITDA therefore came in at Rs. -25 crores, or -1.3%.

Quarter 4 financial-- this is the EBITDA bridge that we present every quarter. Quarter 4 financial '23 adjusted EBITDA stood at Rs. 6 crores. Our incremental revenue from quarter 4 to quarter 1 stood at Rs. 44 crores. And incremental gross profit in the transport business stood at Rs. 17 crores prior to certain specific items for quarter 1.

We had about Rs. 4 crores of annual wage increments above the gross margin line, which is at the operational staff levels. We had planned investments in the last mile, which is the expansion of the delivery station network, which led to an increase of Rs. 2 crores and an impact of uncontrollable factors which are linked to both security concerns in Manipur and the weather impact in North India in the second half of the quarter, which led to a decline by Rs. 4 crores. So the total increase in transport gross profit after adjusting for these stands at Rs. 7 crores.

Transport fixed costs have increased by Rs. 13 crores, which is driven by an increase in mid-mile capacity, both in terms of gateway and hub infrastructure and in terms of the trucking network, and annual wage increases of supervisory employees, which is typically done in quarter 1 of the financial year. And we've seen a total decrease in transport service EBITDA, therefore, of Rs. 6 crores.

Following this, there's a reduction in service EBITDA of the non-transport businesses by Rs. 3 crores, largely driven by the supply chain services business, and secondly, an increase in corporate costs of about 21 crores, which is driven by increments in salaries of Rs. 6 crores, a one-time, milestone-based payout to employees of TRI Robotics, which is a company that we acquired in financial '22, of Rs. 5 crores, investments in our marketing program, which have begun this financial year, of about Rs. 3 crores, and provisioning for ongoing commercial disputes with certain vendors-- in this case, GoAir-- of about Rs. 2 crores, which leads to a total change of Rs. -30 crores and leads to quarter 1 financial '24 adjusted EBITDA of Rs. -25 crores.

In terms of key cost drivers, as you can see, not very significant change between quarter 4 fiscal '23 and quarter 1 fiscal '24. Total freight handling and servicing costs have increased from Rs. 1,372 crores to Rs. 1,438 crores, which, on an absolute basis, continues to be below the same cost at the same time last year in quarter 1, which was Rs. 1,453 crores. As a percentage of revenue from services, freight handling and servicing therefore has reduced from 83.2% last year to 74.5% as of quarter 1 fiscal '24.

The major changes-- one has been in vehicle rental expenses, which have reduced from 20.6% to 20.1%. We expect this to improve further as we continue to source intra-city vehicles through our Orion platform. Contractual manpower expenses have increased from 11.1%, temporarily, to 12.1%. This is due to the impact of rains, due to us continuing to pay salaries in states that have been affected by security reasons, and annual wage increases. And overall, the net change otherwise is in lost shipment expenses, which continues to improve from 3.2% in quarter 1 financial '23, to 1.7% in the previous quarter, to 1.3% in this quarter.

Moving on, this is the final adjusted EBITDA bridge. Total revenue from customers, as I mentioned, stood at Rs. 1,930 crores. Freight handling and servicing costs stood at Rs. 1,438 crores, employee benefit expenses at Rs. 353 crores, and other expenses at Rs. 152 crores, leading to a reported EBITDA of Rs. -13 crores. Adjusting for share-based payment expenses and capitalization of the leases, this leads to an overall adjusted EBITDA of Rs. -25 crores, or -1.3% of revenue.

So to summarize the quarter, this is our fourth sequential quarter of revenue growth since quarter 1 of last year. Express and LTL businesses have demonstrated revenue growth and volume growth in a seasonally weak quarter, setting us up well for the rest of the financial year. Our capacity expansion plans have borne fruits in quarter 1. We've expanded mid-mile capacity and delivery center capacity in preparation for seasonal volumes in Q2, Q3, and Q4.

Margins remain stable, broadly, overall. And we expect to have a great financial year ahead. With that, I'll pause. And happy to take questions.

VIJIT JAIN:

Thank you, Sahil. Just a reminder to participants, if you have any questions, please raise your hand. And the operator will take them up. Thank you.

OPERATOR:

The first question is from Sachin Dixit.

SACHIN DIXIT:

Congrats, Sahil and team, on having a great quarter. I had a couple of questions, basically, one regarding PTL business. So on PTL, we have been highlighting a weekly sort of trending in the past couple of quarters. I understand this was done due to SpotOn acquisition integration issues getting over, and to reflect how we are ramping up. We do not see that happening this quarter. Do we assume that the growth in the PTL business has normalized now, or there is something else going on?

SAHIL BARUA:

Not at all Sachin. I think the point of demonstrating it in the past was really because there were several questions about the PTL business. And we felt it was necessary to demonstrate the ramp-up of volumes. As you can see, we've had a very strong start to the FY. We've seen an 8% growth in volume in quarter 1 over the previous quarter already, and compared to last year, 44% in overall volumes. And the idea was really, simply at this point to say, look, integration issues are behind us. And going forward, we expect the trend of growth in PTL to continue. So we don't really need to demonstrate weekly volumes any further.

SACHIN DIXIT:

Understood. Quickly, on the employee expense side, that's the second question. So I noticed that while our employee expenses are going up very, very mutedly in terms of rising, but we see ESOPs being granted at a rapid pace, right? So in Q1, if I calculate quickly from the filings, roughly, that amounts to Rs 80 Cr worth of ESOPs being granted. Is that how we should look at forecasting our ESOP expense, in the sense, like, ESOP should grow employees' expenses in terms of cash being relatively muted?

SAHIL BARUA:

Yeah, I think we've granted 2 million ESOPs as part of our annual performance cycle. Our annual performance cycle takes place at the end of quarter 4. And so the grants are made at the start of quarter 1. And then after that, we don't have too many grants which happens through the year, except for some exceptional performance. So you're right. You will see ESOP expenses in quarter 1. Our policy is as per our performance policy. Wage increments, typically in our case, we forecast at being usually between 6% to 8% annually. But overall, you should not expect to see significant wage inflation year on year going forward.

SACHIN DIXIT:

Understood, thanks. And just one final thing. I hope the violence in Gurugram and the surroundings is not impacting business, or can you give some color on that?

SAHIL BARUA:

Certainly. I think the reality is that both weather and security situations do disrupt operations in various ways. We haven't fortunately seen any significant impact on our operations overall. That said, with the shutdown of internet, even briefly, we had to modify how we were picking up and delivering consignments. We continued to remain operational throughout.

We've also managed to continue to remain operational throughout, in all rain affected areas, throughout the end of quarter 1. So no major impact, per se. We remained operational despite the internet connections (shutdown). We've continued to pick up volumes overall. But we monitor the situation, on two days, of course, where, in particularly violence-prone areas, we did have to suspend delivery operations briefly.

SACHIN DIXIT:

Understood. So thanks so much. And all the best for the year ahead.

SAHIL BARUA:

Thank you.

OPERATOR:

The next question is from Sachin Salgaonkar.

SACHIN SALGAONKAR:

Hi, thank you for the opportunity. I have three questions. First question, Sahil and team, I just wanted to understand about what's happening on the ground on e-commerce, as well as, let's say, from other operators like social commerce and D2C. The reason I'm asking is your shipment growth for 1Q was great. I just wanted to understand, should we look at this as a trend to continue? And are we seeing improvement in the overall general appetite out there?

SAHIL BARUA:

Sure, Sachin. In general, these days, I'm quite careful when I'm making statements about the e-commerce market. But that said, I think, look, our volume growth has been solid in this quarter. We've been at 182 million shipments overall, compared to 152 last year. I think, if you remember, our position has consistently been that, while the medium and long term trajectory for e-commerce is consistent, we expect the market to grow between, call it 16% and 20%. And our growth has been at the upper end of that. Our assessment is that that represents an overall share gain in the market.

In terms of market volumes, quarter 1 is historically not a very strong quarter for e-commerce. In general, quarter 2 is when the action starts picking up about now. And volumes then continue through quarter 3 and quarter 4. So we expect that, hopefully, there'll be solid volume growth in August, and then with the Diwali sales at the end of year. In terms of D2C, that's a particular segment of focus. I think we've gained significant share in the D2C market overall. We've been focusing on our value proposition for D2C, both increasing speed, integrating fulfillment, and launching a suite of data services, which a number of customers have now started taking up.

And we've also been growing our presence with smaller and the long tail of e-commerce, really, both with the launch of Delhivery One, which is our self-serve portal which allows small brands to really access our services seamlessly, and also through the growth of our franchise network and the growth of our delivery C2C shipping app, which allows the extreme long tail to start shipping through delivery immediately, without the burdens of a long contract process and a long integration process. So that's been the secret to our growth in quarter 1.

I think we are optimistic about e-commerce, as usual. Individual players, as I've mentioned, and I think as the public continues to face their independent struggles and their independent strategy, it continues to evolve. But for us, we maintain consistent market share with the larger players. We've gain-shared with the smaller players. We continue to launch-value added services. And so, irrespective of market outcomes, I think we are well-positioned.

SACHIN SALGAONKAR:

Thanks, Sahil. Does that mean you guys are seeing a mix shift more in D2C versus e-commerce, in the seasonally slower quarter 1 for e-commerce?

SAHIL BARUA:

We've certainly seen a shift in terms of client concentration. So our top five client concentration has reduced overall. The definition of D2C is a little bit vague. But I'd say, vertical e-commerce plus D2C plus SME is now a larger percentage of our business.

SACHIN SALGAONKAR:

Thanks. My second question is on the supply chain business. And historically, when we look at the growth, the trends look a bit volatile. Case in point, this quarter, we had a -13% YoY growth but a 10% QoQ growth. So I just wanted to get a bit more color from you in terms of understanding what's going on here.

We heard the comments in the opening remarks, about you guys getting a bit more marquee customers. Question out here is, should we see a stabilization of the trend out here? Or any color you could provide us in terms of how to look at this business?

SAHIL BARUA:

No, I think as far as this business goes, Sachin, one of the things that we've spoken about is that the minimum size of this business actually is, where it stabilizes is much larger than where we are. This is still sort of an early business for delivery. These are typically large contracts that will be anywhere from 20, 30 crores a year at the minimum, up to nearly 150 crores a year.

And so when individual clients' businesses have their moments in the year, that can affect growth both upwards positively and negatively for us right now. I think there were disruptions in supply chain in general in quarter 1, when you consider the security situation, the rains, and how it's affected consumption. And that's reflected a little bit in our numbers. The contracts are, I pointed out, whether it's Havells, or Tata Motors, or Mamaearth, or some of the others that are starting up, these are ones that we expect will begin in quarter 3, quarter 4.

We've signed these contracts. And now, we start deploying and building the infrastructure, which typically takes anywhere from about 60 to 90 days. So hopefully, this will hit us in quarter 3 and quarter 4. But this business will continue to grow fast off this base and see some volatility for the near future.

SACHIN SALGAONKAR:

Thanks, Sahil, very clear. And third question, perhaps to Amit. Amit, just wanted to understand what's happening in depreciation, as well as other income. Depreciation was down 31% QoQ. Any one-offs out here? And same for other income, is it all Treasury income, or something else out here?

AMIT AGARWAL:

So on the depreciation and amortization, there were two components, one related to depreciation of fixed assets. As you are aware, we basically built most of the capacity in first half of the fiscal year. So quarter 3 and quarter 4 typically see relatively lower investments. And as a result, the implication of lower WDV-based depreciation is evident in the quarter 1, subsequently.

So that is one of the reasons why depreciation was lower. I think this number would equal to about Rs. 25 crore attributable to this. And on the amortization, in quarter 4 of FY23, we amortized fully, the SpotOn IT systems, which we no longer use. So that was an implication of another about Rs. 30 crores.

In other income, there were two impacts. One was a redeployment of our capital of about Rs. 5,500 crores into higher-yielding instruments and mark to market gains. And another part of about Rs. 10 to 12 crore, is a classification where we moved certain other expenses to where certain adjustments were made between other income and other expenses. So that was a one-off item of Rs. 10 crore.

SACHIN SALGAONKAR:

Thanks. So just, if I want to understand a bit more clarity on depreciation amortization, going ahead, we should see some kind of a seasonality every year, where 1Q is a bit low and then things start picking up 2Q onwards, right?

AMIT AGARWAL:

Yeah, this will a bit depend on when our mega facilities come live. So this year, we expect our Bhiwandi mega-gateway to go live between September or November. And as a result, you will see the implication on depreciation in the subsequent quarters. Similarly, we expect our mega-gateway in Bangalore to go live in March 2024. So you may not see the same impact that you are seeing this year in quarter 1 in the next year of quarter 1.

SACHIN SALGAONKAR:

Got it. Thank you, and all the best.

OPERATOR:

Next question, we go to Gaurav Rateria.

GAURAV RATERIA:

Am I audible?

SAHIL BARUA:

You are, Gaurav. You are. Please go ahead.

GAURAV RATERIA:

Hey, I have three questions. The first one is, we see PTL volume is 77% of what it was at the peak of 4Q on a combined basis. So is it fair to say that if we go back to that, our transport service EBITDA would also revert back to a similar number, what it was at that point in time?

SAHIL BARUA:

Sure. I think that's a fair assumption in general, though our expectation-- and we're still figuring out our line-haul costs, for example, are coming in better than they were prior to the integration, which was, if you remember, the whole point of buying SpotOn, which was really, essentially, to be able to move more of the volume to larger automated gateways and through our trucking network. So potentially, at least internally, we would like the margins to be at least as much as they were at similar scale or higher.

GAURAV RATERIA:

Yeah, I was doing some rough maths on this. So if I continue to assume 50% incremental gross margins on transport business, then I get to a similar service EBITDA margin for transport, what it was at that point in time in the fourth quarter of fiscal '22. So does it mean that we still have scope for continuing to deliver more than 50%-plus incremental gross margins till the time we get back to a similar volume of what it was at the peak?

SAHIL BARUA:

So as I've mentioned, in general, that would be true. But as I've said previously as well, it depends a little bit on the mix of the business in terms of exactly where it's coming from. At the moment, we do have pockets of under-utilization which continue, relative under-utilization, I would say. And therefore, the incremental margin story continues to be solid. That said, we are also discovering new ways of improving productivity, even in places which we had thought historically were close to high utilization. Our engineering continues to deliver that.

And so, potentially, this could continue slightly longer than we had previously expected. We're also discovering certain commercial benefits on the trucking side through our Orion platform. So the way to put this is that we want to expect to get to at least the same margins that we had at the same scale. Also, bear in mind, one more thing, Gaurav, which is that we have been culling low margin customers and churning out some of these low margin customers or renegotiating pricing. So hopefully, our expectation would be that even that will have some impact.

GAURAV RATERIA:

Got it. Secondly, once you get back to normal volumes or same volumes on a going forward basis, I think you suggested in the past that incremental gross margins in this business should revert to more normalized level of 30%. How should one think about incremental service EBITDA margin in the transport business on a more normalized basis? Should it be between 20, 25% incremental margin? Should it be lower? I'm just trying to understand the puts and takes here.

SAHIL BARUA:

At this point, it's difficult to give exact commentary on where the service EBITDA margins will be. But broadly, if you do the math, yes, I'd expect incremental service EBITDA margins to be in that 18% to 22% kind of range.

GAURAV RATERIA:

Got it. Last question, I just want to understand a little better on your sourcing comment from your own Orion platform. How exactly did it help you, and what incremental levers do we have? Thank you.

SAHIL BARUA:

Sure. Very simply put, Gaurav, it's, essentially, a freight exchange. Orion is a freight exchange. It was designed both for internal use cases for our line haul procurement for our supply chain services business and also, externally, for customers to place trucks through the platform. So think of it as similar to what Full Truck Alliance does in China.

Earlier, our line haul contracts were not being sourced via Orion. We continued to source them through our own fleet team. As we placed our line haul demand onto our Orion platform, we've had multiple vendors bidding for routes as we've opened them up. And, as a consequence, we've seen commercial benefits come in as vendors have given us competitive bids, and we've had multiple vendors bidding. So that's been one reason.

The second is that we've also expanded the scope slowly over the last year. We began by exposing our ad hoc or spot requirements of trucking onto the Orion platform. That was then expanded. The scope was expanded to fixed contracts, as well.

And so we started seeing benefits both on spot, as well as fixed contracts. By way of context, spot contracts typically will be between 10% and 14% of our total trucking. 86% is fixed. So there were benefits that came in through that, as well. And, now, we're also expanding this to intracity movements, which is where we use a mix of LCVs and smaller LCVs.

GAURAV RATERIA:

Got it. Thank you.

OPERATOR:

Next question is from Sohan Joshi.

SOHAN JOSHI:

Hello. Am I audible?

SAHIL BARUA:

Yes. Please go ahead.

SOHAN JOSHI:

Two questions, Sahil. Going ahead, what will be the impact on realizations? Because, as you said in the previous con-call, individual players may have some ups and downs throughout this year due to funding winter, and maybe some of our competitors are also raising funds, like Shadowfax or Xpressbees. So will it affect the realizations in express parcel business going ahead?

SAHIL BARUA:

No. Also, to be clear, Sohan-- I pointed this out before-- what happens to individual players or what happens to the fundraising strategies of other players in this market is not germane to our pricing strategy. Our stated ambition has always been to be the most efficient player in the market, which we are.

When you combine the fact that we have an extremely attractive pricing proposition that we provide to all of our customers, irrespective of their size, coupled with the fact that we have the highest quality of service, and we reach 18,530 pin codes, and we have the operating leverage that we do, I don't think that any amount of capital raising or pressures to individual players in e-commerce has any impact on pricing or market share for us. The second thing is, if required, we will defend our market share because we have massive operating leverage and the operating margins to do so.

SOHAN JOSHI:

OK. My second question is, in the previous con-call, we had some talks about monetizing the IP of transition robotics. Are we through for that plan? I mean, are we going to see any revenue flowing from it as well, in this year? Can you throw some color on it?

SAHIL BARUA:

Sure. We have begun to road test our drones, as I'd mentioned in the last quarter. In fact, I think one of our models should now be commercially ready by quarter 3. That said, do bear in mind that there are licensing requirements and so on that we have to meet. And even if we were to have monetization this year, it won't be a significant portion of our overall revenues.

SOHAN JOSHI:

OK. And just one question, if I may ask, any plans on acquisition on the table going ahead? Because there were media reports of Gati, there were media reports of you, Delhivery, entering into hyperlocal, though you have denied it in the exchange announcements. But, still, any plans for acquiring any company which we can add to our networks-- any such plans?

SAHIL BARUA:

Sohan, I think you answered your question. We've already denied it. It would be very strange if I were to announce something right now. But, no, as I mentioned, we've denied it officially, at this point in time. We're very happy with the organic growth opportunities that we have.

SOHAN JOSHI:

OK, OK. Thanks a lot, Sahil. That's it from my end. Thanks a lot. Good luck. Wish you good luck.

SAHIL BARUA:

Thank you, Sohan.

OPERATOR:

The next question is from Mukesh Saraf.

MUKESH SARAF:

Yeah. Hi. Am I audible?

SAHIL BARUA:

Yeah, Mukesh. Please go ahead.

MUKESH SARAF:

So, firstly, if you could just quickly give us the market share, how the movement in your market share has been in the express business? Obviously, you've grown at close to 20%, but how the industry growth is doing.

SAHIL BARUA:

Mukesh, I think, last time, you put me on the spot with this, as well. I think we've grown 19% in volume terms versus last financial year. Now, various people measured market share in various forms, but our assessment is that market has grown at less than the 19% that we've grown at.

And apart from that, we've seen significant increase in our overall volumes from D2C as a category, from vertical players, and from SME, which are the ones that generally are faster-growing than the broader market. So our assessment, therefore, is that we've probably gained 1 or 2 percentage points on market share.

MUKESH SARAF:

Great. OK. And, secondly, in terms of this increase in the fixed costs, like you mentioned, you're planning expansion for the year. So just understanding, how much of that would have been done in 1Q? I mean, typically, say if you have to do X amount of expansion, 1Q covers how much of it? Would you have already done 70%, 80% of what you plan for the year in 1Q already?

SAHIL BARUA:

More or less, Mukesh. The only big expansion that will come in will be in quarter 3 when the Lonard facility in Bhiwandi goes live. That said, even that will not have a full impact on fixed costs because we're essentially consolidating infrastructure.

So we operate our Bhiwandi gateway. We operate a large service station. We operate a large returns processing center, all of which, we have consolidated into the Lonard facility. So net-net, the impact on fixed costs actually will not be that significant, even when Lonard goes live.

In general, quarter 1 is where we would have committed and executed probably about 60%, 70%, or sometimes even higher as a percentage of our total capacity. Also, if you remember from the last call, I'd mentioned the two specific cities where we had expansion plans outside of Hyderabad, which was the other one, were going to be Chennai and Pune. And Chennai has gone live. So that's also been consolidated and is already reflected in our statements.

MUKESH SARAF:

Sure, sure. So I mean, through the year, now, the operating leverage should only play out, as well.

SAHIL BARUA:

Yes.

MUKESH SARAF:

Right. And just, lastly, very quickly, I mean, how would the debtor days differ for you across businesses? I think you had mentioned it once in the past, but if you could just recap that, across businesses, how does that vary?

SAHIL BARUA:

Sorry, can you repeat that question? You said the database?

MUKESH SARAF:

The debtor days-- the DSOs.

SAHIL BARUA:

Oh, sorry, the DSOs-- Amit, you have the exact statistics. Can you take this, please?

AMIT AGARWAL:

I'm sorry. We don't disclose the debtor days by line of business. We will probably give our debtor days at the end of quarter 2, but our analysis at the end of quarter 1 showed that we have reduced debtor days, on a whole of business, by two days in quarter 1. And we expect the momentum to continue to bring down debtor days in quarter 3.

MUKESH SARAF:

But very qualitatively, if you could tell me, Amit, across these businesses?

AMIT AGARWAL:

Typically, in B2C, the billing cycle is 30 days, and the receivable days is also 30 days. So we bill by the 2nd or 3rd of the month for the previous month, and then the bills come due by 4th, 5th of the subsequent month. We do not deduct the COD in hand from the debtor days. If we were to deduct, we would be pretty much zero working capital on express business. But without that, we would be about a month, or as you can see. In B2B businesses, like LTL, supply chain services, FTL, the billing cycle being 30 days, the credit period terms could range from 30 to 60 days, in very exceptional contracts, maybe 90 days. So you can do the math on what the average receivable days of the whole business will be.

MUKESH SARAF:

All right, all right. Great. Thanks a lot. I'll get back to you.

AMIT AGARWAL:

Thanks, Mukesh.

OPERATOR:

The next question is from Hitesh Goel.

HITESH GOEL:

Thanks for taking my question, and congrats on a good set of results. My first question is on when I see the first shipment revenue for express parcel and both for PTL, it's kind of declining for the last two quarters. So is it a yield issue because you're seeing the pricing in the market has not come down, or it's a mix issue? Can you just talk about that?

SAHIL BARUA:

It's largely a mix issue, Hitesh. So it's a combination of both the client mix changing in the express parcel business, the salience of the heavy business as it changes, basically, quarter on quarter, there may be variations in the overall yield and also the zone mix.

Typically, in quarter 3 is when we see a bump up in realization, both because the salience of the heavy business can go up, and slightly heavier products get shipped out in quarter 3. But per se, no change overall in pricing strategy between quarter 4 and quarter 1. So on the express side, what you're seeing is really just a shift in mix, to some extent.

HITESH GOEL:

And how-- sorry. Go ahead, go ahead. You were saying something.

SAHIL BARUA:

No, I was just going to answer the same question for PTL-- same thing on PTL.As I mentioned, it's a mix shift. In PTL, we have three broad categories of customers. One is major accounts or enterprise customers. The second is SMEs, and the third is retail and aggregator customers. As the mix across the three varies, there's a natural variance that occurs in the overall yield and outside of which, for specific customers, there are provisions that we take which can affect the yield in any given quarter, but no change in pricing strategy.

HITESH GOEL:

Sure. And my other two questions are, first, is also on the network utilization. So how has it increased or decreased as you have set up more infrastructure over Q-on-Q basis?

SAHIL BARUA:

The network utilization in quarter 1 is obviously slightly lower than network utilization in quarter 4 because we've expanded at an overall level because we've expanded midmile facilities in preparation for the rest of the year. And, obviously, we've increased the overall count of delivery stations also in preparation for the rest of the year. So utilization would have dropped a little bit to that extent.

That said, at an aggregate level, network utilization doesn't really have any meaning because it's ultimately just an aggregate of utilization at each individual facility level. What I can tell you is that facility level utilizations, for us, in the mid-mile will typically vary anywhere from about 70%-odd at the lower end to up to about 110% in various locations. And in the delivery stations on an average, my sense is that we are, at this point, probably close to about 60% to 65% utilized.

HITESH GOEL:

OK. And you touched base about on the PTL mix, right? So I just want to get more sense on this. So what is your mix between enterprise SME and retail? And when I compare the yield of other players in the market, their yield is much higher because I think the mix is also different because they're more towards SME or retail.

So can you shed some light on it? How should we look at it? Because we are closely monitoring the yields to understand the profitability in the PTL business. Is that the right way to look at it?

SAHIL BARUA:

It really depends. I mean, I can't really comment on what drives the yield for other players in the market. The way, at least, we look at it internally is our yield is determined by our own unit economics and our own targets in terms of cross margins and EBITDA margins. We do have, obviously, different pricing strategy for enterprise customers versus SMEs versus retail.

And, obviously, the pricing strategy generally will be that the larger the customer, marginally, there are discounts on price. So retail will typically be highest yield, followed by SME, followed by major accounts. In terms of the mix, look, one is we don't disclose the overall mix.

And the second is, at this point, providing an exact breakup of the mix is not a good indication of the future because our ambition is not to grow at 5% a year. Our ambition, ultimately, is there's $3-billion-$5-billion PTL market. And delivery, at this point in time, all things said and done, we're a $200- $250-million player.

So there's a long way to go. Our ambition will be to gain share across all segments. We do not have a yield protection strategy, we have a growth strategy and a margin improvement strategy. And, therefore, I don't think that our yield will remain absolutely predictable going forward.

HITESH GOEL:

OK, great. Thanks, Sahil, and all the best.

SAHIL BARUA:

Thank you.

OPERATOR:

Next question is from Pulkit Patni.

PULKIT PATNI:

Yeah. Actually, my question was also on yield. But the fact that you said that your focus is a growth strategy and not yield, I think it partly answers maybe just an extension of that. Q1, FY22, your realization on the PTL business was close to Rs. 11,000 per ton, which has come down to Rs 9,900 per ton right now. And this is happening at a time when you said that you are taking out some of the low-yield customers.

So any rough math as to, at what yield level do we think we bottom out, in the sense that we can't go below that? And any numbers that you have based on the cost initiatives that you are undertaking?

SAHIL BARUA:

Yeah. Look, I think let's not confuse profitability and yield. Let me give you an example. If you pick up an LTL freight in the city of Delhi, and you're delivering LTL freight in Faridabad, the yield is naturally significantly lower than if you're picking it up in Delhi and delivering it in Cochin. And so the overall yield that you have is a reflection of the mix of your business.

So we don't, frankly, waste a lot of time comparing our yield to any of our other competitors. We have yield targets that we need to reach for every single load that we carry. And we have the systems which allow us to price every single load accurately. You know, typically, players in this space have relied on rule of thumb guidelines for yield. Because we tend to take what we think is a more scientific and strategic look at how to price for every load. So as we have culled low margin customers, that may or may not have any sort of implication in terms of yield remaining stable, going down, or going up. You can have unprofitable customers at a Rs. 16 per kg. yield. And you can have highly profitable customers at a Rs. 5 per kg. yield, and our ambition, of course, is to have highly profitable customers at all yield points.

So, I don't know if that answers your question. But there's no minimum yield also at an aggregated level, if that makes any sense. If it's a intra-city load, typically, we would argue that's sort of the minimum yield you require is about Rs. 5 per consignment. And then of course, it varies depending on the distance that you're traveling.

PULKIT PATNI:

Sure. Sure. So effectively, from Rs 11,000 per ton to Rs 9,900 per ton, it's really not any discounts on rural customers. It's just the mix that has been changing through this period. Or things like distance, et cetera.

SAHIL BARUA:

Absolutely.

OPERATOR:

The next question is from Baiju Joshi.

BAIJU JOSHI:

Hi. Am I audible?

SAHIL BARUA:

Yeah. Hi. Hi. Yes.

BAIJU JOSHI:

Yes. Thank you. Thank you for the opportunity. I have two questions on behalf of Aditya Suresh. if I may. First question is on the small disruptions, like last year, there were rains, and then again, this year, there were a couple of incidents. So just wanted to understand what steps you can take at your end to tackle such disruptions so that these don't cascade into bigger issues.

SAHIL BARUA:

It's a good question. You know, we've called out before that one of the big macro risks that faces the company is disruption through weather. At our end, of course, we have a fairly rigorous process of making sure that our infrastructure, especially the spine infrastructure, is resistant to all forms of natural calamities, including rain. So our facilities are designed as such, right from vehicle ingress, to parking, to making sure we have staff which is available and taken care of, to health and safety measures. So we've seen, per se, no major disruption in our spine network in terms of the ability to service our customers.

That said, customers obviously do face disruptions in their operations when it's raining heavily. And as a consequence of that, sometimes that may lead to either a pileup of volumes, which means too much volume. And in some situations, customer operations may be shut. There's limited control that we have on that.

But if your question is, is the network managed to be resistant to rain, the answer is yes.

BAIJU JOSHI:

Thank you. And secondly, can you provide any update on the ONDC network and any use cases that have seen considerable traction in terms of volumes?

SAHIL BARUA:

We are not yet significant participants on the ONDC network. I think ONDC has seen some traction, especially on the food side. I'm not aware of what the most recent numbers are. But the last, I'd heard numbers were in the range of--weekend orders of food were in the range of some 30k to 40k orders a day. Look, whenever, ONDC plays out, we will be meaningful participants as required. I think we like the idea that we have the ability to publish a price and a service level. We also have both the staffing, the technology, and the underlying cost advantage to service any demand on ONDC. We are integrated.

We continue to watch it. But at this point, we are not active participants.

BAIJU JOSHI:

Thank you very much.

OPERATOR:

The next question is from Ankita Shah

ANKITA SHAH:

Hello? Yeah. Can you hear me?

SAHIL BARUA:

Yes, Ankita. Please go ahead.

ANKITA SHAH:

Yes, hi. So you shared the approximate value utilization level on the mid-mile side, but on the first and last mile, will it be possible for you to give some color on the utilization side?

SAHIL BARUA:

Yeah, utilization on the last mile, as I'd mentioned, Ankita, is in the range of about 60% to 65% of theoretical capacity. That said, even in the mid mile and in the last mile, I do want to point out that one of the jobs that our engineering teams perform is to continuously figure out how we can release additional capacity. So the 110% in the mid mile, also, that I pointed out, the reality is that we probably have the ability to go to 120, 125% with better engineering, which we continue to explore.

So like I said, I wouldn't read too much into aggregate utilizations across the network at this point in time. The way I would put it is, there's operating leverage in the business, which is quite evident. I think we've spoken about it multiple times over the last several quarters. And the second is that, as you're aware, at the gross margin level, our unit economics continue to be highly positive. And so overall utilization, even if it stays flat, volume growth should deliver returns to us. And if we continue to see these engineering opportunities to increase productivity, we'll see an improvement in margins.

But there is a reason we do not publish aggregate network utilization. I'm aware that other players in the industry once in a while do provide this estimate. But in our view, providing a network level utilization actually is dangerous and false.

ANKITA SHAH:

OK. Secondly, this is for clarification, is there a change in the number of Q1 ‘23, same quarter last year, volume numbers of PTL business? Because I think we've published 239,000 tons this quarter, and the earlier presentation was mentioning 262,000 tons. So just wanted to clarify, or I can take it offline.

SAHIL BARUA:

I'll ask Amit to just investigate that and come back to you, but per se, there's no change.

ANKITA SHAH:

OK. I'll take that check. Secondly, last question from my side. Last two, three years, if I look at the annual numbers, there was an increase in the lost shipments number. I have seen a quarter on quarter basis, for Q1 this year, this has come down. But on a full year basis, any outlook on where this number can be on a yearly basis, full year?

SAHIL BARUA:

So as you can see, the total loss and damage expense as a percentage of revenue is at 1.3% in this quarter. We did see a spike in quarter one, when we had integration issues. And this was more reconciliation related loss and damages that we had to bear in Q1. On a normalized basis, our expectation is that loss and damage should be sub 1% of revenue. And that's the internal target that we're working towards.

ANKITA SHAH:

OK. Thank you.

OPERATOR:

The next question is from Shrinidhi.

SHRINIDHI:

Yeah. Hi, I'm audible?

SAHIL BARUA:

Yeah. Hi, Shrinidhi. Go ahead.

SHRINIDHI:

Yeah. Hi, Sahil. Thank you. Congratulations on a good set of numbers. However, I want to understand the operational strategy, wherein we are basically integrating mid-mile operation of express business and PTL business. In that context, does the company have to be very selective in terms of what load it picks from the retail customers?

SAHIL BARUA:

I think irrespective of our strategy of integration, we have to be selective about the kinds of loads that we pick from customers. Our view has been very simple, which is that we look for loads fundamentally. Let me put it this way. We do not do loads that are not easily transportable. So as an example, we don't do over-dimensional cargo. We don't do hazardous material. We don't do improperly packaged material or loosely packaged material in the PTL network at all. It's a fairly tightly controlled form factor. And we don't do loads where a single piece weight is higher than 400kg.

SHRINIDHI:

But these are more of a specialized cargo, right? The rest of the market itself should be very large, which could be integrated, right?

SAHIL BARUA:

Absolutely.

SHRINIDHI:

OK. And does the load characteristics also matter? Like, if it is very seasonal, your network can't handle it? And is the load coming from smaller customers, do you have a more of a marketing bandwidth to handle it, or it doesn't matter whether a customer is small or the load profile through the seasonality is very different?

SAHIL BARUA:

The whole point of Delhivery is that essentially we are able to service any size of customer with any form of load that fits our requirements. As I mentioned, there are a small set of things that we don't do, but outside of that, irrespective of a customer's seasonal requirements or a customer's size, we provide exactly the same service. In fact, it's not only our ability to serve, our aim really is to be the lowest cost service provider for absolutely any size of customer and to be the highest quality service provider to any size of customer. So we do not differentiate in terms of either saying we can't handle your loads because of seasonality or we can't handle your loads because you're a small customer or anything of the sort. Our entire network is designed to service everyone.

SHRINIDHI:

Yeah. Thank you, Sahil. And one more if I may. In one of the presentation deck, you highlighted incremental investment in marketing. Is it directed more to adding SME customers in the PTL business with your network getting stabilized and service level back to the level you want?

SAHIL BARUA:

That's exactly correct. We have no particular need to perform marketing for our e-commerce business. We're already the market leader. And I think we're more or less the default choice for anyone. And on the PTL side, I think what we're doing is expanding our local presence across tier two and tier three markets across the country.

SHRINIDHI:

Thank you, Sahil. Those were my questions. All the best.

SAHIL BARUA:

Thank you very much.

OPERATOR:

The next question is from Aditya Mongia.

ADITYA MONGIA:

Hi, everyone. The first question that I had was more on the adjusted EBITDA margins that you reported in the first quarter. All right. Now I see this is a 200 basis points improvement over FY22. What I wanted to understand was that, should we assume that the FY22 was a good reflection of seasonality across quarters, and thus the full year FY24 numbers should be 200 basis points higher and probably even more so, given the cost improvements that have happened in this period?

SAHIL BARUA:

So Aditya, you're breaking up a little bit, but I think I got the gist of your question. I think, far be it for me to suggest what you should or should not assume, but broadly, what I can certainly tell you is that, yes, our margins in FY24 are 200 basis points better than they were in fiscal '22. On a larger network, as well, and on lower realizations. So that should give you a sense of the operating leverage in the business. I do think there are certain structural factors in fiscal '24 which are you know better than fiscal '22.

ADITYA MONGIA:

The second question that I mentioned was, Can you hear me?

SAHIL BARUA:

Yeah. I can hear you, but I think you missed my answer, which is fine. So why don't you go ahead?

ADITYA MONGIA:

On the recent announcement by Flipkart to enter the express B2B space, the question that I had was, do you think that given the benefits of being inside express B2B as a synergistic step, along with B2C, these kind of strategic actions would happen more and more by almost all e-commerce players? And obviously, if that is the case, does that make us more worried about us retaining this competitive market advantage over time?

SAHIL BARUA:

Aditya, can you hear me? Just checking.

ADITYA MONGIA:

Yeah. I can hear you well.

SAHIL BARUA:

All right. I'll answer your question, but I think there's some background noise. Ok. I think Aditya's question was essentially, are we worried about the fact that Flipkart has decided to get into B2B logistics? The short answer to this is no and fundamentally for a couple of reasons. One, very, very simply, is that fundamentally, the PTL model that you require to establish, it needs to have a distributed network of our kind. Which, in our belief, certain networks do not have. And so the ability to scale up their B2B businesses is uncertain.

The second is, I don't see any strategic advantage or strategic rationale for captives to be in this business at all. First of all, it doesn't make any sense for a captive whose job is to provide theoretically a higher customer experience to the e-commerce brand going out and, let's say, delivering spare parts for Tata Motors to their dealers. I mean, I don't understand what the logic for that is at all and how this is capital efficient whatsoever. So there's a strategic misalignment. There's an economic misalignment. There's an execution misalignment.

I think making an announcement is the easiest part of setting up a business. So the rest of it, we'll see. But let's say, if your question is, are we worried, the short answer is no. We have the infrastructure. We have the capability. We have the team and we have the economics to continue to grow in this market irrespective of individual strategies by the captives.

ADITYA MONGIA:

Just a last question from my side. Your 4Q adjusted EBITDA numbers for FY22, which were 3.5% on the positive side, were these stable numbers for a fourth quarter, or did they have any Shopee scale-up driven effect?

SAHIL BARUA:

Yeah, if you were to look at quarter three, quarter three was also positive when the influence of Shopee was not as large. So yes, there was some impact from Shopee. But it was not as significant, perhaps, as you think. Outside of which, as I mentioned, there are structural factors in our business in this financial year which are different from where we were in financial '22.

We have larger, higher scale hubs, which are more automated, higher productivities. And we also have a significantly more developed trucking network. And we've also been jettisoning low-margin customers. So let us see as the business plays out. Financial ‘22 was a good indication of how operating leverage in our business plays out. But neither financial ‘22 nor financial ‘24 is going to reflect exactly what the long-term economics of the business are going to look like.

ADITYA MONGIA:

Well, thank you for those answers. Those are my questions.

SAHIL BARUA:

Thank you.

OPERATOR:

Next question we have is from Rishabh Parekh.

RISHABH PAREKH:

Hi. Can you hear me?

SAHIL BARUA:

Yes, please. Go ahead, Rishabh.

RISHABH PAREKH:

So I just had one question, incrementally, we have guided that our gross margin will be 50% odd of our incremental transport revenue. This quarter is about 38%.

So what would you attribute that to? And going forward, do you think we can hit the 50% mark over the next three, four quarters? Thanks.

SAHIL BARUA:

Thanks, Rishabh. Yeah, that's a good point. I think we would probably have ended up at the 50% mark, in any case. I think there was some volatility which came from the weather towards the end. One of the things it does is it reduces last mile productivity to some extent because the number of deliveries per person comes down, obviously, because of the impact of the rains. That's one of the reasons why incremental cost margins in this quarter look a little softer than they have in the past.

How much further will the 50% incremental GMs continue? As I'd mentioned, this question's been asked quarter on quarter. When we began in quarter two last year answering this question, at that point, our estimation was that it would last three quarter, four. But we've been pleasantly surprised that incremental GMs have continued to remain high in quarter four and in quarter one.

And as of now, I do think that we have capacity in the network. And our engineering is strong enough to allow us to continue to see high-incremental gross margins in the near future. Long-term, our expectation, of course, when capacity utilization normalizes is that incremental gross margins will be in the 30% to 35% kind of range. But whether we'll be there exactly in this quarter, or the next quarter, or the quarter after is not something I can immediately comment on.

RISHABH PAREKH:

Understood. Thank you. Thank you very much.

OPERATOR:

Next question is from Naitik Mody.

NAITIK MODY:

Hi. Thanks for the opportunity. Can you hear me?

SAHIL BARUA:

Yes, absolutely. Please go ahead, Naitik.

NAITIK MODY:

Yeah, Sahil again, my question on the PTL business. So the incremental business this quarter, quarter on quarter, has come at a much lower realization. So I just wanted some understanding on that.

SAHIL BARUA:

Yeah, as I mentioned, I think this is a combination. This is a mix impact and also an impact of what lanes we're servicing. As I mentioned, the three major segments of the business are major accounts, SME, and retail. So one is this automatically as the mix of those customers changes, yield may change a little bit.

The second is within those customers, obviously, as they expand their relationships with us, it's possible that they're shipping on some lanes which are shorter distance lanes, for instance, therefore affecting yield. I wouldn't look at yield necessarily. Internally, what we look at is gross margin for the PTL business and EBITDA for the PTL business, as long as those are trending upwards on an absolute and a relative basis, where we don't have to worry about changes in yield. If your question is, has there been any change in pricing, the answer is no.

NAITIK MODY:

Thanks. And on the service EBITDA, we have made about Rs 197 Cr. Of that, how much losses would be there in the non-transportation business?

SAHIL BARUA:

Amit, do you want to take that question?

AMIT AGARWAL:

Could you please repeat the question?

NAITIK MODY:

Sure. Out of the service EBITDA that we've reported of about Rs. 197 Cr. This consists of what losses from the non-transportation business?

AMIT AGARWAL:

Yeah. The service EBITDA of non-transportation businesses would put together be almost flat or about to take two percentage points.

NAITIK MODY:

Yeah, oh, OK. All right. Fine. Thank you.

OPERATOR:

Next question is from Mayur Gathani.

MAYUR GATHANI:

Thank you for the opportunity. I just wanted to check, you mentioned something on the SaaS in the presentation. And maybe I missed it. Can you throw some more light on what that was and what are you referring to? First question. And second was, you've been very confident on the margin front, on the volume front. But the margins have been on the weaker side because you have increments this quarter. You have some one-off expenses for expansion, that you're expecting a lot of growth in the second half. So this will continue in quarter two? Or this is what you had to do and now you will see a significant improvement in margins as volumes increase?

SAHIL BARUA:

Sure. Why, let me answer the second question quickly because that's a much shorter answer. As you can see, in every year, margins begin to improve in quarter two and that continues through the financial year. Our wage increments, obviously, hit us in quarter one. And as I'd mentioned during the question from Mukesh Saraf, we typically see about 60% to 70% of our planned infrastructure development to happen in quarter one.

So no, I don't expect any significant increase in the fixed cost base going forward in Q2, Q3, Q4. We do expect volumes to grow through the rest of the financial year. And so the operating leverage should play out. And margins should improve as volume growth kicks in. Obviously, bear in mind that quarter three, quarter four are seasonally high quarters, both for e-commerce, as well as for PTL.

Coming to your first question on platform and Dispatch One, as I've mentioned multiple times, OS1 is the platform that we've been building for the last three and a half years. Think of it as building Android for logistics, effectively, an operating system which allows logistics operators, enterprises to essentially build their own logistics applications, and also to integrate with the Delhivery's logistics systems.

It's aimed at small scale operators both in India and the rest of the world. They have the ability to use our first-party applications, which is dispatch one is one example of that, which we've launched, which allows last mile operators to essentially use our dispatch service. So it's exactly the same as the Delhivery's dispatch service. And they also have the ability to customize it to their specific needs in case they have highly specific product requirements.

This is aimed at companies both in India and outside India. So we're going to be targeting both the Middle East and the US as potential customers. We have 10 potential customers that we're speaking to. It'll be monetized similar to a standard SaaS product. But that said, this isn't going to be a significant portion of our revenues at all through this year, we're still at an early deployment stage.

So first-party software is one part of what we're doing, which is the SaaS product. The second is also allowing other logistics applications to ride on top of our platform. So you will remember that we acquired a company called Algorythm, which provides data services in the supply chain services space. So that will also be deployable on top of our platform stack.

And similarly, other, for example, routing applications or scheduling applications can also be deployed on top of the OS1 stack, which will then be available to all of the customers who Delhivery services. So that's broadly the platform strategy. This is the first commercial deployment that we're doing. It's on schedule as of now. We don't expect it to form any significant portion of revenue profits in this year. Hopefully, we'll start seeing monetization slightly more significantly in the next financial.

MAYUR GATHANI:

So just to understand better, you are saying that you've developed a platform on the Delhivery basis, where third-party logistics company can take it from you and run their own business in India, as well as outside.

SAHIL BARUA:

That's right. They can use both our first-party applications or they can use components of the platform to build their own logistics applications as well if they happen to have the resources to do so. We provide them the basic libraries, the basic toolkits, that they need to do so, and also the configuration layers if they need to do so.

So let's say you're a large logistics company. You can use the base components of platform to build your own logistics applications. Let's say you're a small logistics company and you want a first-party dispatch application, we'll provide it to you. Let's say you're a logistics SaaS company which wants to offer your services to customers who are using Delhivery’s logistics stack, you can do that as well. So that's broadly what platform is.

MAYUR GATHANI:

Sorry. Just to ponder a little bit more on this. So will it be-- why would someone use your software? Because wouldn't it be, you know giving their information, their client information, to you?

SAHIL BARUA:

No. The data is similar to how you would use, as an example, AWS. Data jurisdiction is very clear. Delhivery does not have access to proprietary data. All of the data belongs to the specific company which is utilizing our services. And we have no access to it.

MAYUR GATHANI:

And we see a better monetization for numbers coming from FY25 onward. This is just the start?

SAHIL BARUA:

Yes.

MAYUR GATHANI:

Thank you. And all the very best.

SAHIL BARUA:

Thank you.

OPERATOR:

Next question is from Keshav Bagri.

KESHAV BAGRI:

Hello. Hi, Sahil. Am I audible?

SAHIL BARUA:

Yes, Keshav. Please go ahead.

KESHAV BAGRI:

So my question is more from a business perspective. We strive to offer the best services at the best price. But don't you think that price should command a premium in the market? And if we are not focusing much on the pricing part of the picture, then how our cost efficiency is lying? Because I think that there's a lot of infrastructure integration which we have done with SpotOn. So if you could just explain me this.

SAHIL BARUA:

Certainly, Keshav. It's not necessary that the best product should always be the most expensive product. If that were the case, as an example, cloud computing would have died at the start. The fact is that certain businesses are the plumbing of how other businesses work. And logistics is one of those. If your payment gateway said, we are the highest quality payment gateway and, therefore, you should pay us the highest charges, there'd be no electronic payments. And our view is that logistics is more or less exactly the same.

You must remember that, ultimately. And we remember, our stated strategy is that we are a cost input to all of our customers. Every dollar that we save our customers is a dollar that they get to invest in growing their businesses. And every dollar that they invest in growing their businesses is ultimately a dollar of revenue that comes back to us and allows us to scale further.

Delhivery’s stated strategy has always been and will always be to be the most efficient and lowest cost provider of services to all of our customers and all of our business lines. In fact, I think the big fallacy in logistics has always been the desire to be a high-priced yield manager. I think there are specific verticals where that makes sense. If you were delivering vaccines, certainly, being a premium player would make sense, if you were running cold chain, perhaps. But what we do fundamentally is high scale. And we are a cost input to highly cost-sensitive customers. And we therefore have to be the lowest cost service provider.

KESHAV BAGRI:

That works. And my second point would be on the warehousing space, what are we offering there? Because I think Safexpress has released their annual statements. And they have touched around Rs 3,000 crore revenue in express parcels. And they were very bullish about the warehousing space. So I just wanted to understand, what is the delhivery proposal in that space?

SAHIL BARUA:

We provide fulfillment centers both for B2C commerce, as well as for B2B. It's essentially an integrated supply chain solution. So let's say you're an e-commerce company or D2C company which requires warehousing space for your inventory across the country. We provide it on a variable basis so that you don't have to invest upfront in the fixed costs of warehousing. We also allow you to distribute your inventory across the country and essentially allow you to create a white label Amazon Prime kind of service.

On the B2B side, it's an integrated supply chain solution. So essentially, we help companies design and execute their supply chains. We both, obviously, help them store inventory and transport inventory to and from plants and warehouses across the country and then to dealers or to customers. And through Algorythm and through Vinculum, we also have the ability to help them optimize inventory placement, and fill rates, and transport selection. So warehousing, obviously, is knit into the whole supply chain services and transportation ecosystem.

KESHAV BAGRI:

So continuing my point on the business ideology, I just wanted to ask, how far are we from volumes which would help us realize EBITDA level profitability? Because I think we are doing good as far as PTL volumes are concerned. I think we have reached a significant, I would say, stage of saturation of the service levels. So how far are we from the volumes? So could you please just?

SAHIL BARUA:

Certainly, Keshav. I think if you look at quarter four, you can see that we had a bit of break-even in quarter four. And so our estimation is that this year, we will have quarters where we will break-even. So clearly, we are not far from volumes being large enough for us to be break-even at an adjusted EBITDA level. Our ambition, as I mentioned in the past, is also to be generating net profits by the time we are late financial ‘25, early financial ‘26.

Over the next couple of quarters, though, do bear in mind the market is very large. India is anomalous as a market in terms of the fact that we don't have a single large logistics company. As India's largest integrated service provider, we are,as of last year, we were less than $1 billion in revenue. I think our focus, really, first of all is also to grow in size, which is really to be a $5, $7, $10 billion company in revenue terms.

And so in the short-term, as we continue to make capacity investments in any single quarter, our adjusted EBITDA margins are that margins may be negative if we expand capacity heavily. This is based on our assessment of future growth. But this year, again, as we've seen in financial ‘22 and in financial ‘23, I think operating leverage will kick in. And we will see profitable quarters this year as well.

KESHAV BAGRI:

And my last question would be, on the competitive side, I think Maersk has also announced that it is entering the express parcel business with a flat rate of some Rs. 80 per parcel in all. Plus, there's a lot of cash on the balance sheet. And I know the proceeds have just begun, have just come out 18 months back. So how are you planning to use that? Is it more on the acquisition side? Or are you going to add more trucks and more physical facilities? So could you please just?

SAHIL BARUA:

Sure. I think for us, strategically, we've always been clear, which is we will continue to build capacity to service the market, which means expanding our mid-mile facilities, which means expanding our trucking network, continuing to gain scale. And so portion of the cash that we've raised at the moment. We'll continue to be invested in expanding capacity. We obviously believe that we are a natural consolidator in this market. And we do look for inorganic opportunities for growth as well. And so a certain amount of our capital, should we find the right asset at the right price, will be deployed towards acquisitions if required.

We made a couple of bold acquisitions on the tech side, in any case, over the last couple of quarters. And outside of that, some of it is also ultimately within a volatile and uncertain world. And so it provides a buffer of safety to the company. Having a strong balance sheet, I think, is also a competitive advantage to us.

About Maersk, specifically, I can't really comment too much because I have no idea why an ocean freight company wishes to compete in an express parcel market. But I doubt that it's likely to be a very successful strategy, at least in the short to mid-term. It's an entirely new capability for them. And if you ask me, the Rs. 80 price point is higher than the price point that players in the market, not just Delhivery, but other players in the market already offer. So I'm not really sure what the value proposition is at all.

KESHAV BAGRI:

Thank you. That is great.

OPERATOR:

Next question is from Dheeresh Pathak.

DHEERESH PATHAK:

Hello, am I audible?

SAHIL BARUA:

Yeah, hi, Dheeresh. You are. Please go ahead.

DHEERESH PATHAK

Hi, thank you for taking my question. This slide, which is there on ESOP charge, shows this year's comp cycle, if I heard correctly, you said is already over. And this year, gave two million ESOPs, right?

SAHIL BARUA:

That's correct.

DHEERESH PATHAK:

OK, and what was this number last year?

SAHIL BARUA:

Amit. Can you take this question, please?

AMIT AGARWAL:

I'll just pull in the last quarter's results.

DHEERESH PATHAK:

So my basic question was, where I was getting to was, that on a steady-state basis, you share. In a steady state, we'll have 30, 35% gross margin. So what is the steady-state ESOP charge? Because in this table, as of now, FY28, it shows zero, right? But as time passes, you have grants being done. So on a steady-state basis, what is going to be the ESOP P&L charge?

AMIT AGARWAL:

Apar, can you please jump to that slide? So I'll just summarize how our ESOPs are structured. There are two portions of our stock options, performance-based and time-based. Can you go to the previous slide, please? Yeah, the ESOPs which are ungranted today stand at a total of about 39 million stock options, out of which time-based are 24 million stock options.

And performance-based are almost 15 million stock options. These performance-based stock options vest at a share price level of Rs. 800 a share, Rs. 1,000 a share, and Rs. 1,200 a share. The charge for the performance-based stock options granted has been shared separately from the charge based on the time-based stock options. The grant of the two million stock options that happened this quarter was of the time-based stock options.

And correspondingly, the charge will be close to about Rs. 80 crore for the full year. So as you can see, if we were to use somewhere around, let's say three million stock options a year on time-based, the three to four million, the pool would last about six to eight years for us. And equally, if we were to use about two million performance-based stock options per year, again, the pool would last an average of about seven years.

DHEERESH PATHAK:

Understood. So on average, you're giving two to three million ESOPs per year. And these are given at face value, right?

AMIT AGARWAL:

Yes, I mean, I said that, roughly, you should assume that three million odd are the time-based stock options per year, and about 2 and half, to 2.5 million performance-based stock options. The performance-based stock options costing gets adjusted downward because of the probabilistic event of achieving these share prices. Just from an accounting standpoint, this cost doesn't get reversed in accounts if the price level is not met. And equally, there will be no dilution corresponding to these either.

DHEERESH PATHAK:

Understood. And coming to this slide 11, which is on the incremental adjusted EBITDA movement, now, some of the costs are related to capacity expansion. But if we take out some of those, for example, DC capacity expansion was Rs 2 crores, then there is a Rs 13 crore increase in transport fixed cost. Some of that is mid-mile capacity investment. And some of it is business as usual increases in salary.

So my point is that, even if we take out some of the costs which are related to capacity expansion, then the increase in transportation service EBITDA, corresponding to the increase in transport revenue, obviously, you have not given the breakup. First of all, if you can give the breakup-- so for example, Rs. 2 crore, I can clearly take out and add back to the Rs. -6 crore, right? But out of this Rs. 13 crore, how much is mid-mile capacity expansion?

AMIT AGARWAL:

So I think one other important part to look at is the security and extreme weather-related impact. This has been estimated at a conservative level, where parts of the country have been completely shut. And our estimate is that we would have lost, about 1/2 to one million package volume in this period and we continue to pay wages for all our staff and ensure their security. So if you were to just add Rs. 2 Cr and Rs. 4 Cr, this will make the service EBITDA impact neutral. And the mid-mile capacity expansion would have been, I think about Rs. 8 to 9 crore out of that Rs. 13 crore impact here.

DHEERESH PATHAK:

So you add another Rs. 4 crore. So basically, on Rs. 44 crores of incremental revenue adjusted for all these things, you have a Rs. 4 crore increase in transport.

AMIT AGARWAL:

No, you would add Rs. 8 crore. You would add back Rs. 2 crore. You would add back Rs. 4 crore from the security. And you would add back Rs. 8 crore from the mid-mile capacity.

DHEERESH PATHAK:

OK, OK. So, and then you have these increase in corporate cost also. So in this, the only thing which is one-off seems to be this Rs. 5 crore, one-time milestone-based payment. So net-net the costs are also increasing. And the increase in service EBITDA is not able to take care of, at that scale that we are operating in.

SAHIL BARUA:

In this quarter.

DHEERESH PATHAK:

Hmm? In this quarter.

SAHIL BARUA:

In this quarter, I think the point that we've been making consistently is that these are in preparation for larger volumes going forward. I wouldn't read too much into the numbers from any single quarter.

DHEERESH PATHAK:

But then the adjustment that we were doing was to take out those costs, right, which are arising because of the scale investment. And then after making those adjustments, we are saying that increase in corporate costs are not able to take care of the increase in transport service EBITDA after having made the adjustments for scale investments.

SAHIL BARUA:

I'm sorry, the increase in corporate costs of Rs. 6 crores in salaries is an increase linked to our annual performance. We have an incremental revenue of Rs. 44 crores. Incremental gross profit is Rs. 17 crores, which is quite obviously visible. There are certain network investments that have been made because we expect significant incremental revenues through the rest of the year, which will come through. Our corporate costs are not expected to rise through the rest of the year. The remaining fixed costs are not expected to rise through the rest of the year.

DHEERESH PATHAK:

Understood. OK, thank you for explaining.

VIJIT JAIN:

All right, we're at the end of the Q&A. So Sahil, Amit, I'll just jump in with a few questions from my side, if that's ok. Yeah, so one of the things you mentioned in your earlier presentation also is that you've closed some of the partner constellation last mile centers, opened new express delivery centers of your own and you mentioned that the larger partner centers were moved in-house. So I'm just wondering, is this driven by, as partner centers become larger, the scope for deployment of automation? And you do prefer to do that in-house? Is that how I should think about it? Or is this a one-off thing, or is it a structural change, in that sense?

SAHIL BARUA:

It's a tactical thing that we keep doing on a regular basis. These are small delivery stations.

The constellation program is where somebody in a local market can run a delivery station for us. It's not because there's scope to automate or anything of the sort. I think when volumes become large, typically there are certain processes that need to be built-in, which are done through our own delivery centers, then through partner centers. Partners may continue with us.

What typically happens is that you split the network. So for example, if you were running a telecom network as traffic and a cell site becomes larger, you split the cell site. Similarly, in logistics, when the volume in our DC becomes large enough, we split the DC. It's a fairly tactical and sort of routine process.

VIJIT JAIN:

Got it, understood. And my next questions are just some housekeeping questions. So first, if you can explain what you meant, Amit, on some changes to other expenses and other income because I noticed that the other expenses also went up, QoQ, so if you can explain that.

And then finally, you used to provide this cash lease rental split between interest expense and ROU, so if you can do that. And finally, the CapEx and FCF for the quarter, and related to that, did working capital benefit from the higher share of D2C in this quarter?

AMIT AGARWAL:

So Vijit, I won't have the CapEx and FCF number exactly with me. But the working capital improvement was largely driven from our B2B businesses, primarily part truckload and supply chain services. The CapEx and FCF numbers, we will release, along with our September balance sheet. Coming to your ROU question, can you please jump to the adjusted EBITDA bridge slide? We do not have the ROU absolute asset here because the balance sheet was not being released for quarter 1. Yeah, so the actual rent paid for the quarter was Rs. 66 crore. While your amortization of the rentals would have been part of them, depreciation and amortization. We'll share this exact number along, offline with you.

VIJIT JAIN:

OK, sure. And yeah, so just the last question, the clarification on other expenses and other income that you mentioned earlier.

AMIT AGARWAL:

Varun, can you take this up? Varun, can you please take up the adjustment between other expenses and other income adjustment?

VARUN BAKSHI:

Can you please repeat the question?

AMIT AGARWAL:

The adjustment that we have done in other expenses and other income, it is a classification. What exactly was reclassified?

VARUN BAKSHI:

Hi, Vijit. Can you repeat the question, please?

VIJIT JAIN:

Yeah, Varun, can you hear me? Hello? Varun, I think Amit, Varun can't hear us. Oh, OK. The question was, what is the reclassification that has happened between other expenses and other income? Because the other expenses look like they've gone up QoQ, right?

VARUN BAKSHI:

The increase in other expenses is not driven by the reclassification. Some of the expenses that drive this increase in other expenses are, if you see the notes that we have disclosed as part of our annual results earlier, you'll see that marketing expenses are a part of our other expenses.

Some of the things like travel expenses are part of our other expenses. Or things like the technology costs are part of our other expenses. So these costs, technology costs, would have gone up, along with volumes, as well as the fresh investments that we make. On that bridge slide, you would have seen that we have shown, as part of our corporate cost increase, that we have increased our spends on marketing starting this fiscal. That also explains the increase in other expenses. So it's those kinds of multiple items that have driven the increase in other expenses. A majority of them would be part of our corporate costs.

VIJIT JAIN:

Got it. Thank you. Those are my questions. Thank you so much. I think we are at the end of this call now. So I'll just give this back to Sahil and team for your closing remarks.

SAHIL BARUA:

Thanks, Vijit. Thank you all for joining the call. And as I mentioned, the summary of the quarter is we're happy to have our fourth consecutive quarter of revenue growth. We made some investments in capacity expansion, which have marginally reduced margins. But overall, the economic performance of the business continues to remain stable. And I think we're pretty positive growth outlook going into quarter 2 and the second half of this year. And so hopefully, we'll see you all at the next earnings call in three months. Thank you for hosting us Citi team.

VIJIT JAIN:

Thank you. Thank you, everyone.