Date: **May 26, 2023**

**BSE Limited**
**Floor 25, P J 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 Audited Financial Results for the quarter and year ended March 31, 2023**

Dear Sir,

This is in continuation to our earlier letter dated May 20, 2023, regarding audio/video recording of the analysts/investors Earnings Conference Call held on May 20, 2023 at 04:00 P.M. (IST) on the performance of the Audited Financial Results of the Company for the quarter and year ended March 31, 2022.

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.

Thanking you.

**Yours sincerely,**

**For Delhivery Limited**

Amit Agarwal

Digitally signed by Amit Agarwal
Date: 2023.05.26 11:29:49 +05'30'

**Amit Agarwal**
**Chief Financial Officer**

Place: Gurugram

Encl: As above

# "Delhivery Limited Q4 FY23 Earnings Conference Call"

## May 21, 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: Good afternoon, everyone. Good day, and welcome to Q4 FY23 Earnings Conference Call of Delhivery Limited hosted by Citi Research. This is Vijit Jain. So 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 from the media, they're requested to drop off this call immediately.

To discuss the results, I'm pleased to welcome Mr. Sahil Barua, the MD and CEO; 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' line will be on listen-only mode and participants can use the Raise Hand feature to ask any question post the opening remarks. I 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 will open up for Q&A. Over to you, Sahil. Thank you.

Sahil: Thank you, Vijit. Thank you to the Citi team for hosting this, and welcome to all of you to the earnings call and thank you for joining. Before we begin, I'd just like to place on record the company's thanks to Mr. Abhik Mitra and Mr. Sunil Bansal, both of whom were key management personnel of the company who have decided to move on during this quarter.

Apar, if we can begin. So the overall summary for this quarter is that the positive momentum in market share volumes and profitability that we had begun to build up in quarter 2 of this year has continued; and the company has broken even at an adjusted EBITDA level. A quick snapshot of the quarter follows here.

In quarter 4 fiscal '23, we have achieved revenues of 1,860 crores across our business lines, which represents a growth of 2% over quarter 3. Quarter 3 is usually our seasonal high because we have the Diwali festive sales in e-commerce during this period; and therefore, the growth in quarter 4 is heartening to see over what is our usual peak quarter.

More importantly, the company has broken even at an adjusted EBITDA margin level. Positive momentum in margins was visible starting quarter 2, continued into quarter 3, and the same forces have continued into quarter 4 as well. The improvement in margins has been driven by increased utilization across the network with increased volumes and a number of cost optimization measures that we'll talk about.

Overall, we did 180 million shipments in our core express parcel business in quarter 4, which represents a 5.6% growth over the seasonally high quarter 3 period. And adjusting for Shopee volumes from the same period last year represents a growth of nearly 17%.

The PTL business continues to recover strongly. We delivered about 318,000 metric tons of freight, which represents nearly a 24% growth quarter on quarter from quarter 3 to quarter 4. We continue to cover 18,500 PIN codes. We've expanded the network marginally during this quarter. Customer base has continued to grow. We have over 27,000 active customers. Revenue continues to be well-diversified. 57% of our revenue comes from customers who use more than two of our services; and the company continues to be very adequately capitalized with over 5,500 crores in cash and cash equivalents.

A quick snapshot of the key operating metrics. As I mentioned, we've expanded the network marginally between quarter 3 and quarter 4 to 18,540 PIN codes. Through our partnership with FedEx, we continue to offer seamless express services to the entire world. The number of active customers has grown from 26,845 in quarter 3 to 27,253 as of quarter 4 fiscal '23. Compared to financial '22, which we closed at 23,600, we've gained over 4,000 customers in this financial year.

The consolidation of Delhivery and SpotOn's infrastructure, which was a key theme for this financial year, has now more or less completely played out, as you can see. Infrastructure has remained stable at about 18 million square feet. The total number of gateways and automated sort centers now stands respectively at 94 gateways and 24 automated sort centers, 174 processing centers as well. We are continuing to slowly expand the network in cities that we're present in, in response to higher volumes. So express delivery centers have expanded from 2,750 to 2,880. Freight service centers continue to stand at 140. We continue to be a team size of about 57,000 people, with about 35,000 partner agents and 11,000 vehicles across the country.

Moving forward, the key highlights for the quarter are here. In the core express business, we did 10 million shipments in quarter 4, more than we did in quarter 3. So in quarter 3 we did 170 million shipments and about 180 million shipments in Q4. This is a reflection of our overall market leadership. We've consolidated our position as a market leader in quarter 4. And this represents also a 17% volume growth in quarter 4 year on year, adjusted for Shopee volumes for the same time last year.

The PTL business continues to see robust recovery. We've reached 318,000 metric tons of freight, and had a strong end to the financial year in March. FY24 has also started with strong momentum, both in volume growth and in service quality. Network service levels, as you can see in the table below, have improved from 89% for the same quarter last year, to 93% as measured on internal turnaround times. Of course, on customer turnaround times, this service will appear better. Overall, short shipments, which is a reflection of network quality, has improved from 0.08% at the same time last year to 0.05% as of this year, and network speed continues to be robust at an average of 4.3 days from order to delivery.

The improvement in profitability has been driven fundamentally by three factors. The first is that operating leverage continues to play out in the core transportation business. As volumes have grown, utilization of key infrastructure, key facilities, automated sortation centers, and in the mid-mile of our trucking network continues to improve. We continue, especially in the PTL business, to evaluate customer contracts at a contract-by-contract level and revise pricing with specific customers or in specific lanes as required. We expect this to continue into quarter 1 and to quarter 2 as well.

And finally, we opened up our internal and our third-party demand to brokers and fleet owners through our Full Truckload Exchange called Orion. Our internal loads are now available on our Axle application to fleet owners and broker partners across the country; and this has led to significant pricing benefits in both long-haul as well as short-haul trucking, and we expect this to continue as well.

This is a quick snapshot of overall performance in quarter 4. As I've mentioned in the bars on the left, overall revenue has grown to 1,860 crores. As you can see, the recovery in the PTL business has continued. It's grown from about 15% of total revenues in quarter 3 to 18% of revenues in quarter 4. It continues to be our fastest-growing business at this point.

The express business continues to be 63% of total revenues. We've seen robust volume growth, and we expect this to continue. The newer businesses, which is the truckload business, the supply chain services business, and the cross-border business, together have seen 6% to 8% growth quarter on quarter and form about 20% of our total revenues.

The bars on the right, on the top you see express parcel. Express parcel revenues between quarter 3 and quarter 4 have remained broadly flat, while shipment volumes have grown from 170 million to 180 million. Yield per parcel has dropped due to a change in two fundamental factors: the first is a change in mix away from heavier shipments towards lighter shipments. We typically see larger heavy volumes in quarter 3 as people are buying refrigerators, consumer durables, suitcases, and heavier items during the period. And the second is a reduction in average parcel weight across the entire network. So this is not due to a pricing change.

On the PTL business, revenues have grown from 277 crores in quarter 3 by about nearly 20% to 328 crores in quarter 4; and freight tonnage has increased from 258,000 tons of freight to 318,000 tons of freight in quarter 4. The truckload business has grown 8% quarter on quarter from 102 crores of revenue to 110 crores of revenue approximately. And the supply chain services business has also grown 6% quarter on quarter from 178 crores to 188 crores of revenue.

The cross-border services business has declined 14% between quarter 3 and quarter 4, from 66 crores of revenue to 57 crores of revenue. However, it must be pointed out that this was influenced by two factors. Volumes have remained stable. Yields in the air freight business have declined by close to 20%, leading to a decline in revenue overall; and the ocean freight business was affected seasonally by the Chinese New Year.

At an adjusted EBITDA level, I'm pleased to report that the company has broken even in quarter 4. Quarter 1, of course, as you can see in the graph on the left, was affected by our integration with SpotOn where we had temporarily paused a certain amount of PTL volume. However, as volumes have returned to the network, you can see quarter on quarter a continuous improvement in margins, from negative 12.5% to negative 7%, to negative 3.7%, to now 0.3% as of quarter 4. And as volumes continue to come into the network as we continue to grow, we expect this trend to continue.

At a yearly level, for financial '22, we had an adjusted EBITDA of 1%. For FY23, we will report an adjusted EBITDA of negative 5.6% for the year in sum. Here's a quick snapshot quarter by quarter of service EBITDA as well. Revenue, as I mentioned in the topline, has grown to 1,860 crores versus 2,072 crores in the same quarter last year and 1,746 crores in Q1. Service EBITDA margins for the business have improved from negative .3% in quarter 1 to 11%. We have seen sequential improvement across all four quarters of the year.

Corporate overheads have remained broadly stable, as we've guided earlier, at 200 crores, and as a percentage of revenue, have declined from 12.1% in quarter 1 to 10.7% in quarter 4. And we expect that as the business continues to grow that we will continue to see leverage on corporate overheads. This has led to an adjusted EBITDA, as discussed earlier, of net adjusted EBITDA of 6 crores for quarter 4 and an adjusted EBITDA margin of .3%.

If we look at the individual drivers of profitability on the next slide, quarter 3 fiscal '23 adjusted EBITDA was negative 67 crores. The incremental revenue in the transportation business, which includes both express and PTL, is approximately 29 crores from quarter 3 to quarter 4. The incremental gross profit in the transport business, however, is 41 crores. So I'm pleased to report that the incremental gross margin in the transportation business continues to be robust and over 50%, outside of which there have been continued efforts on cost optimization that have improved gross profits in quarter 4.

The first, as I've mentioned, is the opening up of our internal line-haul demand requirements and sourcing of market fleet through our Axle application. This has enabled fleet owners and brokers to bid competitively for our loads and has led to efficiencies in pricing. The second has been the continued rationalization of business with less profitable customers and the introduction of standardized rate cards, specifically for the SME retail and co-loader segments in PTL.

The third, obviously, is improved capacity utilization across the network with increase in loads. And the fourth is greater coverage and greater coverage through weight capture in both the parcel and the PTL businesses, thereby reducing revenue leakages.

There's also been a decrease in transport fixed costs between quarter 3 and quarter 4 of approximately 9 crores. This leads to a total increase in transport service EBITDA of about 50 crores. There's also been a 17 crores swing in service EBITDA of the non-transport businesses, though quarter 3 was impacted by a 12 crores provision that we had to make in the supply chain services business. And a decline in corporate overheads overall, since quarter three contains our Diwali bonus and incentive payments to staff.

The net result is an increase in quarter 4 FY23 of about 73 crores, leading to a net adjusted EBITDA in quarter 4 of 6 crores versus negative 67 crores for the previous quarter.

Here's a quick snapshot of individual cost elements. Overall freight handling and servicing cost, which is our principal cost, has declined on an absolute basis between quarter 3 and quarter 4, even as revenues grew. Total freight handling and servicing costs have reduced from 1,409 crores to 1,372 crores, thereby reducing from 77.4% of revenue to 73.8% of revenue. Line-haul expenses continue to improve as a percentage of revenue. They've dropped from 33.4% of revenue in quarter 3 to 33.1% of revenue in quarter 4.

We continue to see leverage in other costs as well, be it contractual manpower expenses, rent, security expenses, and losses and damages through the network. We expect this to continue as volumes grow.

Moving on. This is a quick snapshot of an adjusted EBITDA bridge. Total revenue, which is the third column highlighted in red, is 1,860 crores. The total freight handling and servicing costs stands at 1,372 crores, employee benefit expenses at 357 crores, and other expenses of 117 crores, leading to an overall reported EBITDA of approximately negative 4 crores, or broadly breakeven for quarter 4.

Adding back share-based payment expenses, which are accounting expenses towards ESOPs already granted, that's a 73 crores add back, less the actual lease rent that we've paid due to capitalization of leases, which is 64 crores, bridges the gap between reported EBITDA and adjusted EBITDA. Adjusted EBITDA therefore stands at 6 crores.

With that, that covers our earnings presentation. The broad summary is that we are very well set up for financial year '24. We've seen a robust recovery in the PTL business as expected. At the start of the year, we pointed out that we expected the SpotOn integration to be completed by quarter 4 and for it to begin reflecting in our economics by quarter 4. That has played out.

Over 27,000 customers continue to trust Delhivery with volumes in the parcel and the PTL businesses, and we expect these businesses to show robust growth going forward. Network service levels remain stable and best-in-class at approximately 93% in the PTL business; and we're looking forward to financial '24 with great optimism. Thank you. With that, we'd like to take questions.

Vijit: Hi, anyone who has a question, please raise your hands, and we'll take your questions. Thank you.

Sachin: Hey, this is Sachin Salgaonkar. Can you guys hear me?

Sahil: Go ahead, Sachin. I can hear you clearly.

Sachin: Sahil, congrats on a good set of numbers. three questions. Firstly, would like to get your sense on the outlook for the express business. One gets a sense that given that most companies are focusing on their profitability, the shipments are slowing down. So clearly from a two to three year view, things should normalize, but how do you guys look for the next 9 to 12 months in terms of shipments, and any thoughts on yields as well?

Sahil: Sure. Do you want to go through all three questions, and then I can answer them all together?

Sachin: Okay, sure. Second question is on PTL. Clearly, we saw a good recovery. But when we look at the FY22 tonnage numbers of SpotOn plus Delhivery combined, it was close to, I think, 1,579,000 tons. So just wanted to understand the roadway towards that -- i.e., is it going to happen gradually, or could we see now a sharp improvement given that network service levels have materially improved? And last question, we clearly saw some articles about SHEIN coming into India. And, of course, we have seen ONDC picking up. So wanted to understand the opportunity for Delhivery from both these sides.

Sahil: Certainly. Thank you, Sachin, I think the third question is sort of linked to the first one almost. In the near term, the outlook for express, I think you're right that, and we've called this out before, that there will always be turbulence that individual players in the e-commerce market will face. However, as a category, I think we continue to be firm believers that e-commerce will continue to grow as sort of it becomes both — as it both replaces to some extent offline in some categories as new categories come online. I think that process continues in India. We don't see that abating. But as I've mentioned, I think individual players will likely face turbulence in this market.

I do want to point out that a slowing market and a market in which customers are focused on profitability is an extreme advantage for Delhivery. We are by far the most efficient player in this market, and we price that accordingly to our customers, and we'll continue to do so. And so an environment in which our customers are counting their costs is one where they are more likely to shift more and more volume to Delhivery.

And as I've mentioned earlier, we do not face pricing pressure from customers, as you can see. Even at our yields, we continue — the express business continues to be highly profitable. So I view this as sort of as a positive. Turbulence is always a good thing for Delhivery overall. We've gained share even between quarter 3 and quarter 4; and I think we'll continue to gain share in this market. We also will continue to expand capacity, obviously. So even as we gain volumes, our ability to service them, we don't expect to be diminished in any way next year.

In terms of SHEIN, I think it's an interesting announcement, Reliance bringing in SHEIN. They obviously were a fairly high-volume player the last time they were here. I think they significantly improved the sourcing capabilities as well for Reliance. In fact, I think Ajio has been one of the fastest-growing e-commerce platforms in the last 12 months; and I think this certainly bodes well for the market. Apart from which, I think category spending by any single large player always - it's like a high tide which lifts all boats. And so when SHEIN comes in and category spending hopefully comes in because of that, I think other e-commerce companies also stand to benefit.

On ONDC, I think we're integrated. We do service volume through ONDC. Volumes are sort of, at this point in time, quite small, but gradually picking up. I've discussed this before. I think we are quite positive, in general, about ONDC and the possible impact that it has, in terms of directly connecting sellers to buyers without intermediary marketplaces. However, I think there are a number of other issues that will need to be ironed out, which will take some time, which is how do you handle returns and refunds and so on. But broadly, if you ask me, I think both SHEIN and ONDC are positives for the industry.

In terms of PTL volumes, I think we've seen a sharp ramp-up between quarter 3 and quarter 4 already. We do continue to see robust volumes in the first quarter of this financial year as well. I think the market has now taken note of the fact that the integration issues that plagued us at the start of the last financial year are behind us; and our network service levels, in fact, are higher than they've ever been at any previous point in Delhivery's history.

Whether the uptick in volumes will be extremely sharp through this year or not, I think will depend, to some extent, on our own sales capabilities and our sales spread. And also, at the same time, we have to be careful to make sure that we maintain service levels where they are. So we have to make sure that it's well calibrated with our infra-buildout. So I guess the broad answer is that we'll see. We have seen a sharp uptick so far. We do see robust volumes. I don't see any reason for that trend to reverse. But exactly how long it will take to get back to 1.6 million tons, we'll have to see.

Sachin: Many thanks Sahil. Just one quick follow-up. We also saw a media article about - or rather your press release about your investment into omnichannel SaaS company, Vinculum. Just wanted to understand the rationale out there and any near-term benefits we could see on the back of it. Thanks.

Sahil: Certainly. Yes, we have acquired a minority position in a company called Vinculum. Vinculum provides order management solutions and warehouse management solutions to a number of companies in the consumer internet space, cutting across multiple categories. I think the area of interest for us, obviously, is a direct integration of the order management system with our own warehouse management systems that we offer to both people in the consumer internet space but also in sort of the broader retail space.

So it opens up the ability for our customers to now use Vinculum's OMS and channel integrations to manage inventory across both online and offline seamlessly. The benefit to us obviously is, it's an enhanced-value proposition for direct-to-consumer brands, which we will take to the market. And the second, obviously, is increased transportation volumes through this, our ability to offer differentiated transportation products, whether it is faster delivery, specific kinds of customized return services, for instance, or in the case of larger customers, helping them. As you remember, we had also acquired a company called Algorhythm. So combining Vinculum, Algorhythm, and Delhivery's capabilities, we can also enable smarter placement of inventory, better reordering, and so on. So that is our expectation of the Vinculum arrangement.

Sachin: Thank you Sahil.

Aditya: Hi Sahil, this is Aditya from Macquarie. I had a few questions. So the first one was in terms of your freight cost. So clearly, volumes have improved sequentially, but freight costs, led by line haul, has come down. Can you help us put more context in this and the path forward?

Sahil: Aditya, I'm sorry, I lost you for just a bit. Would you mind just repeating that for me?

Aditya: No worries. The question was about the fact that you had improved volumes in this quarter, both PTL and express parcel, but clearly, your freight costs have come down and that's been led by low line-haul expenses. Could you provide a bit more context and color around this?

Sahil: Certainly. I think there are a couple of things that are at play here. One is the share of tractor-trailer movements in our overall ton-kilometer usages math has improved. This is something that we've been calling out for the last year or so. That as tractor-trailer penetration increases, our line-haul costs per unit continue to improve. And we'll expect this to continue through the next year as well.

The tractor-trailers are a significantly larger form factor than the traditional trucks that are used in the industry. They're significantly more efficient for us to use. So on a like-for-like basis, as an example, the tractor-trailers will be anywhere, at a bare minimum, from about 15% cheaper to all the way up to 30% on some routes. And so as the penetration of these vehicles increases, as more and more hubs become tractor-trailer capable, we will continue to see improvement in line haul.

The second is a competitive bidding process that we've brought in. As you're aware, we've been building our full truckload freight exchange for the last three or four years now. The idea, really, rather than building a supply-side marketplace, was first to make sure that we have enough full truckload demand and that we have and that we have vendors who are onboarded onto our various applications. So that was the first step that we've been executing so far.

Now that we have a large base of vendors and brokers and fleet partners who are on our applications, it was a natural step for us to take to introduce the bidding process onto that app, which we've done. And as soon as we've done that, there's been a competitive element to the pricing of these trucks, market vehicles that we use, both in intercity, line-haul movements, ad hoc, which form about 10% to 12% of our total movement, and also on intracity as well where we've begun more recently. And so that has led to pricing benefits for the company overall.

Aditya: Sahil, just as you scale your PTL business over the next couple of years, do you think that line haul as a proportion of revenues, we can further optimize this? Or do you think this is a level which is appropriate?

Sahil: No, I think we will continue to see improvement in line-haul costs. One, because we're still, I think, we still have some distance to go in terms of introduction of tractor-trailers. As overall volumes grow, one of the things that will happen, Aditya, is that hubs which so far have not needed to take tractor-trailers, will start taking them as well. And as an example, two or three of our fastest growing hubs off the top of my head in the last year have been, if I'm not mistaken, Nagpur, Chandigarh, Kanpur, Indore, all of which are starting to become big tractor-trailer hubs for us. And so, as more of the secondary hubs around the country become trailer feasible, we will continue to see improvement overall. That's one.

The second is we also have been experimenting with pilots with road-trains, essentially conjoined trailers, that significantly improves the total haulage on our tractor. That will give us some benefits as well. We're also exploring the option of electric vehicles, basically, alternative fuels in our intercity operations, which I think also will eventually lead to lower costs. But I can't put an exact number to it just yet because it really depends on what loads transact, where on what kinds of trucks. But I don't think we're at the end of the road yet in terms of optimization.

Aditya: And if I can just squeeze one more question, right? So this is more at industry level rather than it being specific to Delhivery. But a couple of years back, the general understanding was that from a volume perspective, that the mix is about say 60:40, roughly 60% captive, 40% third-party logistics. More recently, sense a shift in that mix more towards third-party logistics as you see more growth from your tight consumer brands or more from tier 2, tier 3. Do you think volumes are moving more towards the third-party industry in general?

Sahil: I mean that's not the only reason why volumes should move to the third-party industry. We are also cheaper and as good. So it makes sense over a period of time for volumes to move to the third-party industry. But I think you're right. One of the key factors is the growth outside of the two large marketplaces. And our expectation is that that will continue, because over a period of time as the consumer gets used to transacting on the internet and becomes more discerning, the whole point of the internet is that multiple small companies can now sell to these consumers. And as they do, it's much more efficient for them to work with third-party partners like ourselves, and we have a dominant market share. So it's a good move for us.

The second thing, obviously, I think at some point -- I've been vocal about this; we've spoken about this in the past -- self-logistics is more expensive, period. And so over a period of time, I do expect that as the marketplaces themselves have to take financial considerations into account and shareholder returns into account, you will continue to see more movement towards third-party logistics.

Aditya. Thanks, Sahil. That's very clear.

Vijit: Thank you. Operator, can we take the next question, please.

Mukesh: Yeah, hi, am I audible?

Sahil: Yeah, Mukesh, clearly.

Mukesh: Hi, Sahil. Congrats on the good numbers. Sahil, on the average realizations coming down to 65. You had called out that it's because of seasonality in the mix in terms of the weight of the cargo. Just looking at last, say, 10 quarters, this has been the lowest. Any other reasons for this, in terms of say is it a customer mix change or is there a pricing cut in the industry? Any of these reasons that you're seeing why it is coming down to 65?

Sahil: No, no, Mukesh, none whatsoever. There is no change in our pricing. We are not cutting pricing at this point. The change is largely a couple of things. One, as I had mentioned, heavy typically goes up in quarter three quite significantly. So you see a lot of consumer durables. You see a lot of bigger items being shipped in e-commerce. And as a consequence of that when that salience comes down, so I think when we did the analysis, about 50% of the total drop in yield is coming nearly from the change in heavy. That's one.

The second is package sizes. Package weights also typically come down in quarter 4 versus quarter 3. So the average package -- I think package weight decline has accounted for about 28% of the difference in yield between quarter 3 and quarter 4. So between the heavy shift and the package weight coming down, 80% is explained by these two factors. And then there are minor factors. One of which is a minor shift in client mix, but that is sort of an unpredictable thing. It changes quarter on quarter.

And the other also to some extent is some change in distance mix. Typically during the quarter 3 period, distances can be slightly longer than in quarter 4. And so the zone AB mix may go up a little bit in quarter 4, compared to quarter 3. But no pricing change. In general, I think our competitors, at least some of them, if I'm not mistaken, had announced price increases in quarter 3. The Delhivery stated position, obviously, is that we will not be announcing price increases in the express industry. At the yields that we make, we are profitable and our intention is to continue to save our customers money.

Mukesh: Understood, understood. And just in continuation I think sometime middle of last year you had mentioned that the e-commerce industry is slowing down, and you've seen that this year the growth is obviously just about 13%, 14%. Any range that you would like to call out for the coming year in terms of growth? Are you seeing any signs of growth coming back to a stronger trajectory? Any of those?

Sahil: Mukesh, I don't want to become the Cassandra of this industry, in general. But I must say that when I said that three quarters ago, it was generally met with widespread disbelief, but overall it looks like that was sort of the forecast for the industry.

As I had mentioned, Mukesh, I think it's quite public now, even the private players have started — their volumes have now become public in The Economic Times and so on. I think individual players will continue to see headwinds through the year because they have to fundamentally rearchitect some portions of their business. And I think ultimately that will cause a drag on the sector to some extent.

But I think if you look at the news on SHEIN, for instance, I think that is going to drive growth in the market next year. As I had mentioned, Ajio actually has been a pleasant surprise in terms of the rate of growth they saw last year. I think that will continue. Reliance has very clearly said they will be aggressive participants in e-commerce. I think what you're seeing is a shift or rather a shakeup at the top, which will drive growth. My own estimation hasn't changed. I expect e-commerce to continue to grow between 15% and 20% year on year.

Mukesh: Okay, right. Thanks for that. I'll get back in the queue.

Vijit: Operator, can we take the next question from Sohan Joshi please? Sohan, you can go ahead, please.

Sohan: Am I audible, Sahil? Am I audible?

Sahil: Yeah, Sohan. Please go ahead.

Sahil: Yeah. Congratulations, Sahil, for these numbers. Just two questions. This improvement in adjusted EBITDA is on account of PTL volumes going up, hence there was an improvement in mid-mile utilization because we have most of the cost, fixed cost concentrated at the mid-mile. So can we draw a suitable assumption that even if express parcel see a decline in revenue in current year, maybe they're funding winter situation of a thing or slowdown in consumer spend? We may still see the continuous improvement at the adjusted EBITDA levels. And what are your estimates for adjusted EBITDA levels for this current year '24?

Sahil: Sure. Sohan, in the interest of not making forward-looking statements, I won't provide an estimate for what adjusted EBITDA will look like for this financial year. But I think if you look at our business, and we've said this before, it is a business that's easy to understand and model out the sequential improvement. And our adjusted EBITDA has been driven by incremental gross margins being quite high. In general, our capacity utilization levels, there is still room for them to grow through this financial year. So I think we'll continue to see improvement.

To your earlier question, I think two things. One is, yes, as PTL volumes grow, we will continue to see sequential improvement in adjusted EBITDA. There's no doubt that that will continue. Also, the faster the PTL business grows, the easier it becomes for us to induct, or rather the more feasible it becomes for us to induct more tractor-trailers and to increase the haulage capacity of our trucks. And so the PTL business has that pleasant side effect as it grows.

In terms of the express business, I think even if the market slows down, I should point out that, as I mentioned earlier, we will gain share in these periods. In fact, a slowing market is worse for our competitors by far because we are the most efficient player in this space; and we will defend market share as we need to, overall. So, I don't think a slowing market is going to affect our adjusted EBITDA in any way.

As I had mentioned in the start of the year when we did the SpotOn integration, and there were multiple questions around growth, I had mentioned at the time that the company's primary focus was not getting the growth tap on, but really was making sure the margins were intact. Because there's no point driving fast if you don't know where you're going. So in our case, now we have four sequential quarters of margin improvement. I think it's quite clear as to how the margin improvement will continue. And now turning on the growth tap for us is not going to be very hard.

Sohan: My second question is regarding your capex spend. Now in your press release, you have said that you're going to go aggressive for the capacity expansion, but then even our peers are going for aggressive capacity expansion, like say, Mahindra Logistics starting a new facility, VRL ordering more trucks, TCI is starting a new supply chain service lab. So are we going to keep our capex plan targeted level at 6%? I think we were supposed to keep our capex plan targeted at 6% and then gradually go to bring down at 5% and so on. So are we going to reach that thing, our peers are also making an aggressive investment in capacity expansion. What is your sense? Can you throw some color on that?

Sahil: Sure. I think we will continue with our capex investment plans exactly as we've mentioned in the past. So you're right, we will stay at this -- in this financial year I think we will stay between 6% to 7% of revenue overall, in terms of capex spend. Our competitors -- also we have competitors, with due respect, say that they will aggressively expand capacity, I think each of the participants in this industry has a different definition for the word aggressive.

Our plans remain unaffected by what competitors choose to do, and especially in the PTL space. For example, the market -- the big move in the market is not competition between Delhivery and Mahindra Logistics. The big move is the change from sort of the fragmented, unorganized market to the organized market.

And so there's room enough for all of us to build capacity and to service our customers. So our capex plans will remain exactly what they are. But if your question is, are we going to accelerate capex plans because Mahindra Logistics and TCI are aggressive, the answer is no. What they do has no bearing on our strategy.

Sohan: That's it from my side. Thanks a lot, thanks Sahil.

Vijit: Hi, can we take the next question from Gaurav Rateria, please. Gaurav, please go ahead.

Gaurav: Am I audible?

Vijit: Yeah, Gaurav, you're audible.

Gaurav: Thank you for taking my question. So I have couple of questions. First, would it be possible to quantify the impact on the PTL volume and revenues due to churning out of the less profitable customers in fiscal '23? And could this be a tailwind to revenue in fiscal '24?

Sahil: Sure. Do you want to go through all your questions or should I go one by one?

Gaurav: Yeah, my second question is the yield reduction that you talked about appears to be more like a seasonal phenomena. However, it is not visible in the Q-on-Q trends in the last year, 4th quarter. So is this something which is more than seasonal and any structural change going on in terms of pattern of demand across different segment which is driving this weight reduction? And third question is, rough math indicates that the adjusted EBITDA for the transportation business could be in high-single digits for the quarter. Is this understanding correct without giving any numbers? And how to understand what would have been the total ROCE for this business and what it could become over the next two, three years? Thank you.

Sahil: Sure. Thanks Gaurav, let me start with the PTL volume question. Yes, the recovery between 318,000 tons of freight that we did for the quarter. So let's say on average, whatever, let's say 110,000 tons, 108,000 tons of freight per month compared to, let's say 140,000 tons of freight on average that we were doing quarter 4 last year. The gap is about 32,000 tons a month. My sense, though I don't have the exact numbers, off the top of my head, my sense is that nearly about a third of that at least would be customers that we have voluntarily churned through the year, and business that we've jettisoned, either because it didn't fit our vision for what the PTL business should be.

So it was either a form factor or a shape or a lane that we didn't wish to service or at a margin that we didn't wish to service. So is that going to be a big tailwind for the next year? I think it certainly is. But as I had mentioned, we do continue to evaluate all of our contracts. We do continue to evaluate customers on an ongoing basis. I think Delhivery and SpotOn had slightly different ways of doing business and now that's been consolidated. So as we do that, I think there will still be some customers where we are renegotiating.

But the good thing, of course, is with service levels being at 93%, losses and damages being at less than .05% with best-in-class service quality and highest network speed, the negotiations obviously at this point are much easier than they were in quarter 2 of last year. So I do think there's a significant tailwind in the PTL business.

In terms of your yield question, last year's quarter 4 numbers, that's also why we keep calling out Shopee and taking it out, because I think Shopee was a big distortionary factor in quarter 3 and quarter 4 of last year. Because among other things, they were shipping extremely small packages and in high volumes across the country. So I think that's partly why you don't see the change between quarter 3 and quarter 4 in the last financial year. In the last financial year, those two quarters, numbers are contaminated by Shopee. Otherwise, this seasonal trend that you see, as we look through our data over the last 11 years, it's fairly common to see this change from quarter 3 to quarter 4.

The last bit is on adjusted EBITDA for the transport business. I can't provide specific numbers because we don't do segmental reporting. But yes, you would be correct that the transportation business is significantly profitable, which is quite obvious, because those are the businesses that have -- the PTL and express businesses are the businesses that have grown this year, and obviously, the incremental gross margin comes from there. And broadly, I mean you can see that fixed costs have broadly either remained stable or come down.
In terms of the return on capital, our expectation for every business that we run is that it meets an ROCE hurdle of 30%, and the transportation business has comfortably reached that.

Gaurav: Super useful. Thanks a lot Sahil. At some point in time, it will be great to have some color on segmental breakup on EBITDA or ROCE, just to understand like what stage different businesses are in right now. Thank you.

Sahil: Certainly. Thank you.

Vijit: Thanks. Can we take the next question from Alok Deora, please? Alok, please go ahead.

Alok: Hi, good evening. Congrats on good numbers. So just actually one question I had. So we have seen Amazon increasing capacity and Blue Dart also inducting new planes. So just wanted some color, how do you see this? Is it because there has been a sharp improvement in the outlook or is it specific to certain segments like e-commerce, for example, where we are seeing a very strong demand outlook, which is why these players are adding capacity? And also one more thing is, how does Amazon adding capacity impacts us?

Sahil: Certainly, I think Amazon adding or not adding capacity makes no difference to anybody other than Amazon. So it's quite irrelevant as far as Delhivery is concerned. Obviously, the self-logistics arms at various points have flirted with the idea of externalizing their services; but unfortunately, strategy is easier to conceptualize than to execute. And I don't think their expanding capacity is going to make any significant difference to the market.

Obviously, if they are expanding capacity because they expect their volumes to go up, I would view that as a big net positive for the industry as a whole. Because if Amazon's volumes are to go up, that means increased spend on the category, that has to mean increased spend which will drive consumers to come into other online businesses as well. So in some senses, I guess the answer is it doesn't really matter.

As far as Blue Dart goes, again, I'm not entirely sure what their outlook and why they brought the planes in; but I'm sure it is to drive growth in their core aviation business, which has limited impact on ecommerce because it costs 50 rupees a kg at the bare minimum to ship on an aircraft, not counting the costs of pickup and delivery which are also significant. And so aviation is simply not a preferred mode of transport for packages that, on average, cost 500 rupees. So I'm guessing that they're seeing this because of increased manufacturing output and are likely going to use the planes for that.
Apart from which, I think they've also begun to fly sorties into Southeast Asia and the Middle East, but again, I'm not super familiar with their strategic rationale. What I can tell you is that bringing in more planes is unlikely to change the e-commerce landscape in any way.

Alok: Sure. And just also wanted to understand, so if you look at these two segments, like e-commerce and the B2B, so in SpotOn when we have this integration hiccup during the first quarter, so some of the customers had gone to other players. So are we seeing them coming back or just some light on that?

Sahil: Sure. The short answer, of course, is yes, we are seeing them coming back. Customers are not unused to the idea of switching networks in the event that there is a temporary disruption in any one network. Because the reality is -- I speak not just for Delhivery here -- for any network this is a possibility. There could be a variety of different reasons why somebody's network in a specific lane or an IT system or a bunch of trucks or a hub is incapacitated for some reason, and so customers are amenable to that.

So we have seen customers return. As I mentioned, you've seen a 23%, 23.4% increase in volumes in PTL between quarter 3 and quarter 4. Whatever the number might be, I'm sure the industry has not grown 23.4% between quarter 3 and quarter 4, so we've gained share. That share, obviously, to some extent has meant customers shifting volumes from other providers back to Delhivery.

I think from our standpoint, the way we look at it is at 93% service levels with an average delivery time of 4.3 days across the entire country and less than 0.05% short and damaged deliveries, that's a best-in-class service. And so customers really have no reason to not be working with Delhivery. So we do continue to see both increased share of wallet from customers, new customers coming in who've never worked with us before, and recovery of accounts that had temporarily paused during the integration.

Alok: Just one last question. So I'm not asking anything like a forward-looking in that sense from the company side, but what growth at the industry level we could look at for the B2B segment as well as for the B2C segment? Because I believe that in last couple of quarters the outlook has changed because we have seen some slowdown in some specific areas. So if you were to look at FY 24 and '25, what kind of growth outlook could be there for the industry in these two verticals?

Sahil: Sure. I think if you look at e-commerce in general, while any individual year may go up and down for a variety of different reasons, broadly, if you work your way backwards from what percentage of consumption do you expect e-commerce to be, let's say, five years out and work backwards, an annualized growth rate of between sort of 18 and 25% odd seems broadly par for the course. I think that seems appropriate.

From our standpoint, I think it's quite simple. As the market leader with the cost advantage that we have, our minimum expectation will be to grow at market rates, if not gain share. But, of course, as I've mentioned, our competitive advantages grow larger the larger we get; and so potentially we will grow faster than the market as well in some years.

In terms of the B2B industry, I think growth rate in PTL is driven by a shift from FTL to PTL to some extent, that's one. The second, obviously, growth comes as people are shifting away sort of from -- in our case, the organized space comes from the shift from unorganized and fragmented players to organized players. Generally, it's a sort of a GDP plus-plus kind of growth rate. Our expectation for the PTL business obviously, we've grown 23% in the last quarter, Delhivery standalone was growing anywhere between 60 and 100% a year. SpotOn standalone was growing anywhere between 15 and 30% a year. I think in the near term, as the industry organizes, our expectation will be to grow in mid to high double digits.

Vijit: Thank you. Can we take the next question from Abhijit Mitra, please. And just a reminder to participants, please limit yourself to two questions only. Abhijit, please go ahead.

Abhijit: Yeah, thanks for taking my question. I hope I'm audible.

Sahil: Ye, you are, Abhijit. Please go ahead.

Abhijit: Yeah, I might have missed this point earlier, but the drop in PTL realization is almost 4% Q-on-Q. I mean what are the factors behind that? Because I see some of the other peers also reporting 4, 5% sequential drop. So is it because the raw material or the ingredient costs have not reduced for the industry, per se? So how to look at this reduction?

Sahil: It's in our case -- I mean I have no idea, I can't speak to our competitors' businesses or our peers -- but at least in our case, it's largely mix shift. We have four major segments in our PTL business. Which is one is major accounts, which is essentially enterprise accounts; the second is SMEs; the third is retail; and the fourth is aggregators. So as the mix across these four shifts, and at period of high growth the mix will be slightly volatile, there are changes in yield. So in this quarter it happens to have reduced by 4%, that's one.

The second, obviously, is that lane mix also makes a little bit of difference. So in a specific quarter, if for instance you are transacting slightly lower distances because of the kinds of loads you're doing, there's a possibility for the yields to come down. But there's nothing structural. I don't think either -- I don't think any of our competitors has announced in the PTL space any pricing moves. We certainly haven't. Customers aren't asking for it. So it's really just mix.

Abhijit: Got it, got it. That's helpful. The second question is, regarding your unbilled receivables, again, this is the guess by looking at your other financial assets -- it seems to have gone up significantly. And if I add, again, estimated number of unbilled receivables and receivables, the days as a percent -- as the ratio of sales seems to have jumped a lot in this year. How to look at that?

Sahil: Sure. Amit? CFO is on the call.

Amit: This has basically increased because in the last quarter of this year, actually second half of this year, we started integrating the SpotOn's billing system with Delhivery's billing system. Prior to this, both companies had their own billing system. And Delhivery's billing system was not a fully automated billing system, but it is now close to the final stage.

So because of this and couple of remaining modules that are to be built out, we had this extended billing cycle but it took a longer period than we would like. We expect to see a significant improvement in our unbilled days and the collections days both over next two quarters.

Abhijit: Got it. I have other questions. I'll come back in the queue. Thanks.

Vijit: Thank you. Can we take the next question from Alok Deshpande, please? Alok, please go ahead.

Alok: Yeah. Sahil, two questions. First, again, sorry to come back on this question on the yield. But given the fact that you have given the numbers for Shopee for last Q4 also, wasn't the decline in Q4 last year much, much lower in the sense that it was just 3 or 4% for vis-a-vis 7, 8% fall Q-on-Q this year? And will this 65 now, how do we see this going? As we go into Q1, Q2, does it usually bounce back in Q1 and Q2 compared to Q4? That is my first question.

And second question is, see after Q1 when we reorganized the entire SpotOn acquisition, we had Q2, Q3, and Q4 where the benefits of the volumes kicked in and that flowed directly to the adjusted EBITDA. Now is the pace of that slowing down and now going forward in Q1 and Q2 or Q3, I mean will we see the normal operating leverage or the normal pace of operating leverage kicking in?

Sahil: Sure. Both good questions. The first one on yield, look, unless there is any need to make pricing interventions with any customer, which we don't foresee, I don't think there will be any structural shift in yield. One difference between the last financial year and this one is that we've actually gained share in the heavy segment within e-commerce. And so the salience of heavy was larger in Q3, I would say, in this financial year than it was in the previous quarters. Which is why the drop also looks larger between Q3/Q4 this year than it was last time because we gained a significant amount of share in this sector. It's a capability that is, in some ways, unique to Delhivery, outside of which there's obviously a mix shift between quarter 3 and quarter 4.

More importantly, I think on yield, looking at the aggregate yield, obviously, as simply revenue divided by volume, without the impact of mix, is a bit misleading. What's important and the statement that I'd make is to say that we don't anticipate any sort of significant structural differences on pricing. That said, obviously, as volumes grow as we hit our target gross margin levels with every customer, we evaluate pricing at a customer level, intend to pass those benefits on. But at no point in time are we going to see any change in margins, irrespective of what happens to yield.

So Q1/Q2 short answer, I don't think there's anything structurally that will change. I think the yields will remain where they are. Little bit of it will depend on how the heavy volumes grow in this period.

To your second question which was around PTL, that's actually a very good question. Incremental gross margins actually have showed no sign of slowing down in quarter 4. To be perfectly honest, when we started inducting the tractor- trailers, we had an underlying assumption of how fast we would be able to induct them and how fast hubs would become tractor capable. I'll be honest, we've been pleasantly surprised at the pace at which the tractor-trailers have been inducted and have made a difference.

Our expectation really in the beginning was that we would start seeing some return to a relatively more normal incremental gross margin compared to what we're seeing. But it looks like we still have headroom. So it's difficult to model out because it depends on where the volumes are coming from, where they're going, what transshipment points they're moving through, but at least at this point in time, it does look like the overall incremental gross margin trend is going to continue for the next couple of quarters.

Alok: Sure. Sahil, just one last question on,you give out service EBITDA margin levels at overall level, and I understand that you don't give it on a segmental basis. But just to get some sense, is there any difference of service EBITDA margins that you give between express parcel and PTL just to understand the gap between the 2?

Sahil: We don't declare these at this point. We are evaluating, and at some point I think we'll start providing more color around segmental margins. But at this point we don't. There is a difference between, at this point in time, given the relative volume scale, I think there is a difference in the service EBITDA margins between the express and the PTL business. The express business obviously has significantly higher service EBITDA margins than the PTL business right now.

But over a period of time, these are both fundamentally consolidation, deconsolidation businesses. And one of our advantages, of course, is that we run a fully-integrated network. And so the fully integrated network should deliver in the long term the same EBITDA profile, super normal EBITDA profile in both businesses.

Alok: Sure. Thanks. Very helpful.

Vijit: Thanks. Can we take the next question from Pulkit Patni, please. Pulkit, can you please go ahead?

Pulkit: Thank you for taking my question. Two questions. First is, when I look at your adjusted EBITDA calculation, for a revenue in the range of between 1,800 crores and 2,000 crores, your corporate overheads have been in the 200 crores range. Is there a number for revenue that you can do with similar cost overheads? Any rough sense of that you can give us? Question #1.

Sahil: Sure. On corporate overheads, I think they are currently at about 10.7% of revenue. As I mentioned, in the long term, we expect corporate overheads to settle somewhere between the 3.5 and 4.5% of revenue kind of range and maybe up to a 5% sort of revenue kind of range. So we expect that this corporate overhead cost will continue to decline from this point.

The 10.7% at this point, of course, is slightly overstated because we're at 1,860 crores versus the 2,000 crores of revenue that we did last year. We didn't feel the need to make any structural changes in corporate overhead for one financial year while we were integrating. But if your question is are we expecting a sharp uptick in corporate overheads through this financial year as revenues grow, the short answer is no.

Pulkit: Understood. Yeah, that was my question. That's helpful. My second question is if you could just give a sense of what our market share is. While we understand you are the largest, but just some numbers would be helpful.

Sahil: This isn't unfortunately tracked by any reliable third-party agency. And obviously I have a vested interest to provide some thoughts. So I'll refrain from doing that because this is one of those cases where maybe even if I say it, you probably shouldn't believe it.

But look, I think we are the market leader in this space among the third-party logistics companies by a stretch. I think easiest way is for you to just maybe order 100 packages online and see how many of them come through Delhivery. And in terms of the self-logistics arms, I think Ekart is perhaps slightly larger than us in terms of overall volumes, but not significantly so. So my sense is between the top three players in this space, which are the two self-logistics arms and Delhivery, we will probably form somewhere between, I don't know, maybe about 75% to 80% of the market.

Pulkit: Got it. That's very useful. Thank you.

Vijit: Thank you. Can we take the next question from Sachin Dixit, please? Sachin, please go ahead.

Sachin: Yeah. Can you hear me now?

Sahil: Yes, Sachin.

Sachin: Hi Sahil, great quarter. I had a question regarding the ESOP expense. So roughly 2 million odd ESOPs were issued in May. And now this has obviously picked up over what we have seen over the last year or so. Can you detail a bit about like who are these granted to, what's the reason for such a large grant?

Sahil: The grant that we make in May is part of our annual performance cycle. It's in line with our overall compensation philosophy. So we've concluded our annual performance cycle at the end of March. And this essentially covers all employees across the organization who are eligible, who meet a certain performance rating and who we feel it's important for us to retain. So it's just a part of our overall retention policy. I think we've issued 1.99 million stock options as part of this cycle, which is in keeping with our historical trends as well. Amit, in case there's anything you'd like to add.

Amit: Yeah, I'd just like to add, Sahil, we are very comfortably placed with the guidance that we have given that this pool is sufficient for us to last for six years. At current rate of consumption, it will last far more than six, seven years.

Sachin: Understood. The other question is on the depreciation expense. We are noting that to go up as well. Can you explain what's the reason for that?

Amit: So majority of our capex in an annual cycle comes live into 2nd quarter of the year, and you'll typically see the 3rd and the 4th quarters where all of the depreciation in the first year being live there and that depreciation is high in the first year because of the WDV method. So it's a combination of WDV method for depreciation coupled with the depreciation going live by September, sorry, capex going live by September, typically. So second half of the fiscal year is a higher depreciation period.

Sachin: So we should expect this trend to last year over year.

Amit: This is a typical trend. Because first half of the year is the very stable period to typically build capacity before the peak season hits.

Sachin: Understood, thanks. Those are the questions.

Vijit: Can we take the next question from Ankit Agarwal(?), please? Ankit, please go ahead. Ankit, can you hear us?

Ankit: Hi. Can you guys hear me?

Sahil: Yeah, Ankit.

Ankit: Yeah. Again, wanted to go back to the depreciation question. I just wanted to check, was there any impact of higher number of Volvo trucks being introduced in our fleet this year. Has that led to increasing depreciation cost this year, or this quarter particularly?

Amit: Yes. I mean there is nothing abnormal in the 4th quarter; but there is a constant number of Volvos getting added into our network. I think over last year we have added about 150 odd Volvos into our business, into the company and another about 150 through vendors. The vendors who are on a wet lease model while the company-owned Volvos are on company's books. So 150 of them were inducted in a gradual manner, about 20, 25 per month throughout the year.

Ankit: Got it, but just a follow up on that one. Given that we are gradually moving from an asset-like model to owning more of trucks, so do you think EBIT rather than EBITDA, probably EBITDA reduced by depreciation would be a better metric to look at to gauge profitability of the business going forward?

Amit: I mean the absolute purpose of the business is to generate free cashflows. And so PAT and free cashflow are the right metrics for us to look at. But we are also in a significant growth and investment phase because of which looking at adjusted EBITDA is the metric or EBITDA is the metric. But sure, we do report EBIT and PBT numbers as well.

Ankit: Got it. Thanks. Thats all from my side. Thanks.

Vijit: Can we take the next question from Sai(?), please. Sai, please go ahead.

Sai: Yeah, can you hear me, Sahil?

Sahil: Yeah, Sai.

Sai: Yeah. Firstly, congratulations on the results. I would like to ask two questions for you. Firstly, what are the key learnings for you over the past year of ups and downs that can be implemented to make Delhivery a stronger company in the future? And secondly, with both Amazon and Flipkart having started their 3PL operations, how is Delhivery thinking through this risk of this entity scaling up their operations over time?

Sahil: Sure, yeah, a good question. The first one I think the first big learning for us obviously is ultimately with the integration of SpotOn was really that even though we thought we had everything ticked and done, our systems were integrated; customers had been onboarded; contracts had been done appropriately; pricing had been appropriately done. I think at the end of the day, our training systems needed more work.

I think so going forward, were we to be acquisitive again in the future, I think we're going to be more careful in terms of the acquisition period and the post-merger integration process. I think there are some very good learnings in terms of how to project manage that better. That's one.

The second I think that has come up, especially over the last 12 to 18 months, is as we've dealt with the world, which is increasingly volatile, both in terms of volumes fluctuating up and down, individual players in the market sometimes going boom or bust, and apart from which fundamentally also operating as a logistics company in a changing-weather environment, I think we're also, for instance, learning how to manage risk in our network much better.

So key learning has been as we are building these larger pieces of infrastructure to really think through a larger variety of risks and making sure that the company is risk proof. And I think that's starting to reflect to some extent in the service levels overall. And so these are one – I mean look, it's an operations business, right? You learn something new every day in an operations business.

But if I were to say what are the two big chunky things that we've learned this year, I'd say these are the two. So I think we've improved our M&A muscle significantly, even though we've gone through a painful period in the 1st quarter. And the second is I think we're learning how to take more balanced decisions with risk in mind.

Your second question on Amazon and Flipkart, I think every quarter this does come up, and it's come up from the day we started this business in 2011. What happens if self-logistics does whatever people think it's going to do. But the short answer to that is I don't think self-logistics companies can be externalized as easily. This sounds great on paper. It's an entirely different thing to execute, because self-logistics arms by their very name, they are self-logistics, they are designed to service internal needs. They are designed to service warehouses which run a specific way, customers who have interacted with the brand in a certain way. They're not designed for these purposes.

Not every hub, irrespective of the fact that it might handle packages, operates exactly the same way. It takes a very different kind of system to be able to service on a daily basis 27,000 different kinds of customers with different size warehouses; different processes; different technical systems; different customer expectations; different package sizes; different return policies; different peaks and troughs in their businesses.

So I think the idea that self-logistics can be successfully externalized is one that seems to have infected the consumer internet world across geographies, including India. But if you ask me, there, frankly, is very limited evidence from anywhere on the planet that this actually is a good idea. So in some senses, what Amazon and Flipkart do in terms of externalizing is of no consequence to Delhivery.

Vijit: The next question is from the line of Anshul Agrawal. Anshul, please go ahead. Anshul, can you hear us? Please go ahead.

Anshul: I'm so sorry. I was muted. So am I audible now?

Vijit: Yeah, Anshul, please go ahead.

Sahil: Yeah, Anshul, please go.

Anshul: Sure. Thank you for the opportunity Sahil. How do we judge the utilization levels of our PTL network? And at what juncture do we decide to expand, invest in strengthening or expanding our network? That was my first question.

Sahil: Sure. Utilization across the network, it's a slightly complex beast. One is obviously there is infrastructure utilization. So there are the pickup and delivery stations which are the freight service centers where utilization is essentially how many tons you can move through the location per hour or per minute or per person and so on. Then there is obviously the trucks where utilization is measured to, essentially the combined utilization is on a ton-kilometer basis. So it's a combination of how much you fill up the truck, billable weight versus carrying capacity and also distance utilization.

And then for the hubs, obviously, again, it's a throughput utilization measure. Various parts of our network have various degrees of utilization, as you can imagine. So an aggregate utilization in some senses is a little bit of a meaningless construct because it really depends on each of the individual hubs.

Also it depends on the lifecycle of the hub. So hub which has been around much longer, obviously, would be significantly more utilized than a hub which has just been expanded. So to give you an example, we just consolidated two of our facilities in Indore into a single facility; and single facility's utilization is at a percentage basis slightly lower than the utilization of the two individual facilities. But it's higher overall capacity, so it's handling more tonnage.

Usually capacity utilizations in the trucking network, unless it's a very sparse lane, will range in the 60% to the 100% sort of level. We do have trucks, of course, which are over 100% utilized, because essentially we are matching loads very well in those trucks. And at the hub level, usually utilizations will vary somewhere between sort of 80% all the way up to a little over 100% in some hubs. Our decision to expand a hub will usually come when we see a sustained period of near 100% utilization of the hub's theoretical capacity.

I do want to point one thing out, though, very clearly, Anshul, which is as the business has grown, our ability to engineer higher productivity out of our hubs has also significantly improved. So even today, for example, we have hubs which have the ability to do six tons per person per day, and at the same time, we have smaller hubs which may be at 3.5 tons per person per day. And so the first step will be really to take that 3.5 up to 6.

Also, as we introduce more robotics, as our systems become better, the throughput that we are extracting out of our existing hubs is also going up. So to some extent, we are sort of -- there's no other way to say it -- we're really inventing this also as we go along. And as that happens, I think capacity utilization, the definition itself is changing for us. For example, today the capacity utilizations that we see -- to be perfectly frank, if you would ask me this question five years ago, I'm not sure I would have said that these were even possible. So I really don't have a very good answer for how much more it can increase. It depends on the kinds of automation and the kinds of technology systems we build.

Anshul: Thank you. I have another question. Can I go ahead?

Vijit: Yeah, please go ahead.

Anshul: So quickly, so Sahil, considering our trucks are running almost 25,000 kilometers per month, almost 20 hours a day, is there any scope of us improving our asset turns in the mid-mile or basically trying to understand do we have any other revenue-driven margin levers? I understand cost efficiency that we bring in. But apart from that, do we have any other revenue-driven margin levers?

Sahil: I'm not sure I fully understand the question. When you say revenue-driven margin improvement, do you mean in terms of increasing pricing?

Anshul: Not exactly. So basically, if we improve our asset turns right in any business, if you increase your asset turns, etcetera, you utilize your assets better, that would significantly give you a jump up in margins that's revenue driven. So probably to sum it up, basically, do we see asset turns improving from the current levels?

Sahil: It's a good question. I'm just trying to think through it. We have seen improvement, obviously, already. But, again, I'm not 100% sure that I'd like to make a statement on that. We have seen improvement in asset turns, yes. Will it continue to improve? Yes. But is it a predictable sort of improvement in asset turns? I'm not really -- I don't think I'll comment on that just yet.

Anshul: Okay. Just one more if I can squeeze in. What are the typical investments/capex that are required to set up a gateway or sortation center?

Amit: So Anshul, the typical set of things that go into a mega gateway are a parcel sortation system. These parcel sortation systems are typically now cross-belt sorters ranging from speed of about 15,000 packages per hour to 50,000 packages per hour. And then these are coupled with bag sortation systems, which can sort another 8,000 to 10,000 bags or boxes per hour. We invest in, we don't buy any land building. All of that is leased from the owner of the property. And we do all of the designing of the facility, including automation, furniture, fixture, electrification, and IT enablement of the facility.

Vijit: Thank you. And can we please take the next question from Sneha. Sneha, please go ahead.

Sneha: Yeah. Can you hear me?

Sahil: Yes, Sneha. Please go ahead.

Sneha: Yeah. So just one question from my side. Considering we have been talking about Ajio's growth in recent periods, do we have any updated stats on what customer concentration for our business now looks like?

Sahil: We do. Our top five customers at the time that we listed, formed, if I'm not mistaken, about 44% of our revenue. And as of this quarter, I think that number is less than 40%.

Sneha: Sure. Thanks. That helps. Thank you.

Sahil: I do want to point one thing out though, however, Sneha. I know I called it out before, but I will call it out again, which is that also that customer concentration is also because customers buy multiple services from us. So service time customer concentration is lower, because a single customer may buy PTL and express and supply chain services and so on. So just at an account level, the name account level.

Sneha: Got it. Thank you.

Vijit: Thank you, Sahil. We have time for one last question I guess and that's going to be me. Sahil, my question -- most of my questions were answered, but in general, when you talked about capex plans this year of 6% to 7%, I'm just curious, given what you've called out on growth. And growth in the current fiscal year was also not that very high for the industry. How would you split that capex between what you do on automation side between Volvo installations and between new locations? Is a bulk of this capex still going to be Volvo in FY24?

Amit: So Vijit, about one-fourth to one-third capex could be in Volvos and trailers. We buy trailers for sure. Buying of Volvos is between us and our partners, but that could be somewhere between one-fourth and one-third of the total capex that we plan to do. About 10%-odd of it would be – 10 to 15% would be in supply chain services business, and out of the remaining bit, about half of it would be attributable to automation, and remaining half to IT equipments and all of the other furniture fixture enablement inside the facility.

Vijit: Got it. So, Amit, these will be still inside existing facilities or new facilities is included?

Amit: These would be including the new facilities. So as we have announced that there is a Bhiwandi mega-facility which will go live this year hopefully sometime in late August or sometime in November. That plus Bangalore mega-facility, which is expected to come in March of 2024. So what will happen is that, for example, in Bhiwandi, we'll be consolidating three of our facilities under one roof. The net area we don't expect to increase by much. But because it's larger facility, there will be new set of automation and the same set of automation will be repurposed into another part of the country.

Vijit: Got it, thanks Amit. Those were my questions. Thank you so much, everyone, for joining this call. I'll hand it back to Sahil for any closing remarks and then we'll close the session.

Sahil: Thank you, Vijit. Thank you to the Citi team for hosting us, and thank you all for joining today's call. I think the summary is it remains the same. I think we've had another good quarter. Our focus was really sequential margin improvement that has continued. And we've consolidated our position in our two core businesses, which is the express parcel business and the PTL business.

Our focus in the next year is going to be to continue to expand thoughtfully, to continue to maintain our service levels at best-in-class levels, and continue to drive improvements in unit economics. And where possible and where necessary, pass those benefits on to customers and keep improving our profitability. I think we're well set for the next financial year. And so far, it's been a good start to the financial year. So hopefully, that will continue. Thank you. Thank you all for joining.

Vijit: Thank you.

Amit: Thank you, everyone.

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