DELHIVERY

Date: February 13, 2025

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 Conference Call pertaining to the Unaudited Financial Results for the quarter and nine months ended December 31, 2024

Dear Sir,

This is in continuation to our earlier letter dated February 07, 2025, regarding audio recording of the Earnings Conference Call held on February 07, 2025, at 06:00 P.M. (IST) on the performance of the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and nine months ended December 31, 2024.

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

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

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

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

Encl: As above

Delhivery Limited Q3 FY25 Earnings Conference Call

Feb 7, 2025

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

MR. AMIT AGARWAL, CHIEF FINANCIAL OFFICER

MR. AJITH PAI, CHIEF OPERATING OFFICER

MR. VIVEK PABARI, HEAD - INVESTOR RELATIONS

Moderators: MR. BAIJU JOSHI, MACQUARIE CAPITAL

MODERATOR:

Hi. Good evening, everyone. Welcome to Q3 FY25 Earnings Call of Delhivery Limited hosted by Macquarie. Before we start, Delhivery would like to point out that some of the statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. Kindly note that this call is meant for investors and analysts only. If there are representatives from the media, they are requested to kindly drop off this call immediately.

To discuss the results, I am pleased to welcome Mr. Sahil Barua, MD and CEO; Mr. Amit Agarwal, CFO; Mr. Ajith Pai, COO; and Mr. Vivek Pabari, Head of Investor Relations at Delhivery. As a reminder all participants line will be in listen only mode and participants can use the raise hand feature to ask any question post the opening remarks. And now I invite Mr. Sahil Barua to take us through the key highlights of the quarter post which we'll open up for Q&A. Thank you and over to you, Sahil.

SAHIL BARUA

Thank you, Baiju. Thank you, Macquarie team for hosting us this evening and thank you all for joining us on this Friday evening for discussion on our Q3 results. Before I begin, you must have seen the news already. I'd like to place on record a warm welcome to the two new independent directors on the Board of Delhivery, Mr. Sameer Mehta from Boat and Ms. Namita Thapar from Emcure Pharmaceuticals. And an announcement that Ms. Mani Venkatesh will be joining us as Chief Business Officer of Delhivery from the 1st of March. We're very excited to have all of them onboard.

With that getting into results for Q3. Broadly speaking, as you're aware, this is the peak quarter for e-commerce given the festive season. It's been a good quarter for us overall. The trend of profitability for the company which we began in Q1 and Q2 has continued into Q3 despite some headwinds in the industry overall and continued muted growth in online commerce volumes.

In terms of a quick snapshot of numbers, we closed Q3 FY25 at Rs. 2,378 crores of revenue from the services, which represents a growth of 8.6% quarter-on-quarter and a growth of 8.4% from the same quarter last year. We delivered 206 million packages in our Express e-commerce parcel delivery business and 242 million including return parcels, which represents a quarter-on-quarter growth of 11.2% and year-on-year growth of 2.4%.

Our Part Truckload business continued to be strong through Q3 which typically is not a peak quarter for the PTL business. We delivered 412,000 tons of freight in Q3 FY25, which represents nearly a 17% growth YoY and a slight decline of 3% quarter-on-quarter. Overall EBITDA for the company stood at Rs. 102 crores or at 4.3% in Q3 FY25, broadly flat versus Q3 FY24. PAT margin came in at Rs. 25 crores in Q3 FY25 at about 1% broadly breakeven, doubling from PAT profit of Rs. 12 crores or 0.5% from the same quarter last year. The company continues to be well-capitalized. We hold Rs. 5,488 crores of cash and cash equivalents on the balance sheet.

A quick snapshot of our key operating metrics. Pin code reach continues to stay stable. We delivered to 18,780 pin codes across the country as defined by the Indian Post. We continue to deliver to 220 countries around the world via partnerships with FedEx and Aramex. Total number of active customers for the Company increased in Q3 with deeper penetration within the D2C segment, the SME segment within e-commerce and the SME segment within the Part Truckload business. We now serve close to about 39,775 customers.

Infrastructure in Q3 had grown to 20.6 million square feet. However, this includes close to about 0.5 million square feet of temporary infrastructure that's built up for the peak season and is then let go off in Q4. We continue to operate 112 major gateways and hubs across the country, including 45 automated sort centers equipped with 65 sorters. Total number of freight service centers have remained broadly stable at 130 freight SCs across the country, and our total number of delivery points stood at close to 4,350, broadly stable from Q2 with a slight shift in mix between self-owned and partner centers, with a larger focus on self-owned centers across the country. We continue to operate 160 processing centers across the country as well. Overall team size in Q3 stood at 67,600 with about 40,000 partner agents across last-mile operations and a daily fleet size of close to about 16,700 vehicles.

In terms of overall financial performance, total revenue from services stood at Rs. 2,378 crores, a growth of 9% QoQ and 8% YoY compared to Rs. 2,190 crores of revenue in Q2 FY25. This is the peak season for the Express Parcel business and its contribution to our overall revenue stood at 63% versus 59% in the previous quarter. The Part Truckload business is at 19% of total revenues in Q3 FY25. Compared to the same quarter in the last financial year, you can see the impact of growth in the PTL business where it was 17% in Q3 in the previous year and 19% this year. We continue to see growth in both the Supply Chain Services business and some growth in the Truckload business as well.

The Express Parcel business grew 15% quarter-on-quarter from a revenue of Rs. 1,298 crores in Q2 FY25 to Rs. 1,488 crores of revenue in Q3 FY25, with a year-on-year growth of about 3%. Total shipments grew by 11% between Q2 and Q3 from 185 million shipments to 206 million shipments in Q3 FY25, broadly flattish growth of about 2% compared to Q3 FY24.

In terms of Part Truckload revenues, we've grown revenues YoY by 22% from Rs. 379 crores of revenue in Q3 FY24 to Rs. 462 crores of revenue in Q3 FY25, broadly flattish between Q2 and Q3. Freight tonnage has grown 17% in the same period YoY from 354,000 metric tons of freight in Q3 FY24 to 412,000 tons of billable freight in Q3 FY25, broadly flattish from 427,000 tons to 412,000 between Q2 and Q3.

Truckload business remains broadly flat. We've been at that Rs. 155 crores to Rs. 160 crores mark since the same time last year. The Supply Chain Services business continues to show robust growth. We've grown from Rs. 173 crores of revenue in Q3 FY24. Revenues have grown by nearly 30% to Rs. 222 crores in Q3 FY25, driven by both growth in existing accounts as well as signing on new accounts, and a quarter-on-quarter growth of 12% between Q2 and Q3 as well. The Cross Border services business has grown YoY from Rs. 39 crores to Rs. 43 crores. However, there's a sequential decline from Rs. 59 crores to Rs. 43 crores between Q2 and Q3.

This is a quick snapshot of overall service line-wise profitability. As I mentioned, at the top revenue from services has grown from Rs. 2,172 crores in Q1 FY25 to Rs. 2,378 crores of revenue in Q3 FY25. Total service EBITDA between these quarters has remained broadly flat. Service EBITDA margins are range bound in the close to 11% range overall.

The Express Parcel business saw marginal growth in service EBITDA between Q2 and Q3 with growth from Rs. 196 crores of service EBITDA in Q2 to Rs. 232 crores of service EBITDA in Q3. Improvement in the overall service EBITDA margin from 15.1% to 15.6%. Margins were slightly depressed compared to the same quarter last year owing to a buildup in fixed costs and a certain inflation and fleet costs which we typically see in this Q3 period.

The Part Truckload business' service EBITDA margin has improved from 2.9% to 3.8%, which is the highest service EBITDA margin that this business has generated in the last 11 quarters, sequential improvement will continue. We generated Rs. 18 crores of service EBITDA for this business in Q3 FY25. Supply Chain services business has returned to service EBITDA profitability after Q2

from a loss of Rs. 9 crores in Q2 FY25 to a profit of Rs. 5 crores in Q3 FY25. Overall, corporate overheads have remained broadly flat for the last 11 quarters. They are currently at Rs. 211 crores, which represents 8.9% of total revenue versus 10.2% at the start of the year, and the broad glide path down towards 6% of revenues continues.

Wages have remained broadly flat. Marketing expenditures have remained flat. Technology investments remain flat. And G&A expenditures remain flat as well. On a net basis, therefore, adjusted EBITDA has come in at Rs. 45 crores, so close to 2% of revenue for Q3 FY25, a growth of Rs. 35 crores versus Q2 FY25, and broadly flat versus Q1. Overall, PAT has improved to Rs. 25 crores for Q3 FY25, or 1%.

A quick snapshot of overall PAT growth for the Company. As you can see on the right, we've had three consecutive quarters of positive PAT from Rs. 54 crores in Q1, Rs. 10 crores in Q2, and Rs. 25 crores in Q3, as opposed to only one quarter of PAT profitability in the previous financial year, which was Q3.

In terms of overall quarterly financial performance, as I've mentioned, Q3 FY25 revenue from services came in at Rs. 2,378 crores, a growth of about 8.4% versus the same quarter last year. Total freight handling and servicing costs have come in at Rs. 1,751 crores versus Rs. 1,572 crores, a growth of about 11.4% YoY, largely driven by increases in fleet expenses. Other costs have remained broadly flat or declined in this period.

Total expenses came in at Rs. 2,451 crores versus Rs. 2,290 crores in the same quarter last year, and in Q2, a growth of 7%, less than the growth in revenue, which leads to a net PAT of Rs. 25 crores for Q3 FY25, a growth of Rs. 15 crores versus Q2 FY25, and a similar growth versus Q3 FY24 with overall EBITDA at Rs. 102 crores, or 4.3% of revenue versus Rs. 109 crores in the same quarter last year, and Rs. 57 crores versus Q2 of this financial year.

It's a quick snapshot of our results. With that, I'd like to pause and very happy as usual to take questions from all of you.

MODERATOR

Thank you, Sahil. We'll now start with the Q&A. As a reminder to all the participants, please use the raise hand feature to ask any questions. We'll take the first question from Sachin Salgaonkar. Sachin, please go ahead.

SACHIN SALGAONKAR

Hi. Thank you for the opportunity. I have three questions. First question, Sahil, more on the margins for the core Express Parcel business. What should we think about the steady state margins for this business, and how far are we from that number? And does anything change with one of the top operators in sourcing in terms of how you guys look at a steady state margin?

SAHIL BARUA

Sure. Sachin, do you want to go through all three questions, and then I will take all of them together?

SACHIN SALGAONKAR

Yeah. Sure, sure. My second question again is on margin, but on more on the PTL side. Last two years, if you see we have some solid improvement in the margin but versus that last three quarters, we have not seen a sharp improvement. So just wanted to understand the trend of margin improvement going ahead, i.e., it should be gradual or we should see a good bump up out there. And lastly, just wanted to know a bit of an update in terms of how rapid commerce is scaling and your general thoughts in terms of how big the D2C operator contribution could be in the medium term to volumes for Delhivery.

SAHIL BARUA

Sure. Great. Thanks, Sachin. So let me address them one by one. In terms of margins, the overall steady-state margins for the business we think will remain in the range that we've spoken about before. I think for the Express Parcel business, service EBITDA margins will remain in the 17% to 20% range. As I've mentioned, obviously assumes that there will continue to be pricing efficiencies that are passed on by Delhivery, but the reality is I think we're reaching an industry structure where potentially further price discounts do not have to continue to be passed onto customers. So, the reality is this could evolve to a world where margins are slightly higher as well. So, nothing changes on overall steady state margins for the Express Parcel business.

I think the Q3 numbers obviously are a little lower than they were at the same time last year. And partly the reason is, one is a slight expansion in the fixed cost. We had our Bangalore mega facility which went live, which has contributed rent expenses in this Q3. But the other reason, equivalently, I think in this Q3 was a slight bump up in overall fleet sourcing costs, which was a little unanticipated for

us at the start of the quarter, but those have normalized since. And so, I don't think there'll be any structural change to the Express Parcel margins.

In terms of the insourcing impact, I think, let me answer this two ways. One is obviously there's been more insourcing. I think from a Flipkart and Amazon perspective, the extent that they've insourced has remained steady through the year because they've already sort of reached the logical conclusion of their insourcing. The reality in the last two years has obviously been the increased insourcing by Meesho towards its Valmo platform. I think that's now reached a fairly large percentage of their total volumes. And so, I'm not sure that that will continue to have too much impact. But I think what it has done over a period of time is that it's essentially eroded the profit pool for the Express Parcel industry as a whole. And even if you include the first-party players, when you sum up, as I mentioned before, the total profitability of this industry, Delhivery is more than 100% of the profit pool. I said this in Q2, and the reality in Q3 is that our share of that profit pool has actually increased as opposed to Q2. So, our belief is that cumulative losses in this industry outside of Delhivery have increased between Q2 and Q3. So, I suspect, it stands to reason that we should see correction in this, either in the form of increased pricing from other 3PLs who are finding current pricing unsustainable, which is good for Delhivery because either it manifests as increased volumes or increased price. And so actually, I think the reality is the insourcing impact on profitability should disappear in a couple of quarters.

On PTL margins, I think the reason why you're not seeing a more sharper uplift is because, as I'd mentioned, one of the benefits and one of the disbenefits perhaps in some senses of running the integrated network is that when investments are made to essentially boost Express Parcel capacity, the PTL network shares a certain percentage of that cost because we run PTL on the same trucks, we run in the same hubs. And in Q3, which is the Express Parcel peak season, we obviously have to invest towards the Express business. So, the PTL network has taken some of those costs. I think if you were to eliminate those, the PTL margin uptick would be even higher. I think what we're very happy about is that despite the investments in Express Parcel, as we look at the PTL margins, there's been an expansion of margins, our yields also have gone up YoY. And we expect that this trend will continue. The PTL business will continue to grow. In fact, December was our highest month ever since the integration with Spoton at close to, if I'm not mistaken, about 147,000 tons of freight. And January has continued more or less in the same way. So overall I think PTL margins are in good shape and we'll continue.

In terms of the two-hour rapid commerce business, we've launched and are currently live in three cities. We're live in Bangalore. We're live in Hyderabad. We're live in Chennai. We have gone live with two core customers with another 15 scheduled to start at some point over this quarter or in the early part of the next. Volume uptick in most of the dark stores actually has been pretty reasonable given that we started barely about 45 days ago. I think the first set of dark stores are already approaching close to about 500 orders per day which is actually pretty impressive given that these are from standalone D2C brands. And I think the breakeven point for these dark stores obviously, is much lower than the breakeven point for the broader quick commerce industry. Broadly speaking, I think we break even at close to about 700 to 800 orders per dark store per day, and so we're nearly there. That said, as I mentioned before, I think rapid commerce is more of a feature. It's an add-on product for the top eight cities for specific SKUs, to specific customers. I think broadly if I look at it, I expect that this business will add maybe somewhere between Rs. 80 crores and Rs. 100 crores of revenue to Delhivery through the financial year and the margin structure will broadly be similar to the Express Parcel business as a whole. So, it's an interesting business. It's a good capability for Delhivery to build. It helps us serve our D2C customers and their customers much better, but it is ultimately, relative to the broader scale of e-commerce, still a fairly small opportunity.

In terms of contribution of D2C, overall, I think one of the things in our Express volumes is that, obviously we don't break up but the three segments that we track very carefully. One is obviously, direct to consumer brands, whether they ship through us directly or whether they ship through us via the form of an aggregator of some shape or form. And the other, obviously, is we track our direct SME business. The heartening sort of piece of our volumes has been that our direct-to-consumer business has grown close to about 30% YoY, and our SME business has actually grown over 50% YoY, so we continue to have a pretty compelling proposition to that group of customers. And our belief is, as we give them sort of the right kind of pricing, the right kind of reach and the right kind of service quality, there's no reason to believe that these segments within e-commerce won't be a more material portion in the medium term.

SACHIN SALGAONKAR

Thank you, Sahil, for the detailed answers. One quick follow up. This is regarding your comment in terms of boosting the Express Parcel capacity. We've seen investments into the capacity on Express every year to a certain extent. And I

presume that should continue going ahead as well. So, does that also mean that the PTL margin improvement should also be at the similar pace going ahead as well?

SAHIL BARUA

No, I think PTL margins actually will improve at a faster rate. So, a couple of things will happen. One is as I mentioned that we've continued to improve overall yield. If you look at it, yield, I think over a six, seven quarter period has gone from about Rs. 10.3 per kilogram to nearly about Rs. 11.1 per kilogram. So, I think that is part of what will continue to drive growth in margins.

The second, of course, is the heavier loads that are coming into the network are improving utilization of the core tractor-trailer network as well as outside the tractor-trailer network and so that margin uplift will come. And the third thing, of course, as I mentioned in the past, our reseller program is becoming larger. We are starting to target retail markets and smaller PTL markets which sit on reverse line haul routes where essentially the incremental margins are much higher because these loads will typically flow in on half empty trucks. So, for instance, in markets like Kanpur, in markets like Nagpur, markets like Guwahati, et cetera. And so actually margin uplift will become higher. So, the PTL margin uptick will be faster than Express.

SACHIN SALGAONKAR

Great. Thank you.

MODERATOR

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

GAURAV RATERIA

Yeah, thanks for giving me the opportunity. I have four questions for you Sahil. The first one, Express Parcel service EBITDA margin not just being lower for this quarter, but also on a nine-month basis, it seems that the operating leverage has played negatively given the volume growth has been muted in low single digit. Is this also driven by we becoming more heavier on our own share of the vehicles in the network and which is why it kind of played negatively? And this can kind of reverse very sharply as volume growth kind of improves. That's question number one.

Question number two is on infra edition. Has that been in line with our overall volume growth in the system or we have built more spare capacity in the last nine months compared to the last year, which kind of allows us to go slower on capacity building for the next year as we grow revenues? The third is that on PTL, what we can do to further accelerate growth in this business or we should look at this as a 15%-20% volume growth business when the industry is barely growing at high single digit?

And lastly on the competition, you kind of gave some color on the competition, that they are bleeding a lot more and we are more than 100% of the profit pool. But what makes us believe that they would be required to take some pricing action which could favor us in terms of volume share in the near term. I mean, this can go on for like maybe one or two more years right before anything of that sort happens. So, this could be a low burn period or slower move to kind of benefit Delhivery from a medium-term perspective. So, these are the four questions. Thank you.

SAHIL BARUA

Sure, thank you. I'll address each of them in order. I think the Express Parcel service EBITDA in Q2, Q3 were muted. And you're right, for the nine months as well have been slightly muted compared to the previous year largely because some of our fixed investments, especially one of them being the Bangalore Hoskote facility coming live and redundant facilities being there.

So that's one of the higher overhangs on service EBITDA margins. And in Q3 specifically, as I've mentioned, at the start of Q3 with the volume surge in the first week of October, I think fleet costs went up a little more than we expected in the key metro cities. And I think the learning for us really is from the next quarter on, one option is to see whether we get into better-fixed contracts as opposed to doing spot vehicle placements in that week.

So, I think that's ultimately caused an overall drag of about Rs. 12 crores to Rs. 15 crores on the earnings. But otherwise, as I'd mentioned, structurally nothing changes on the Express Parcel service EBITDA margins. We see no reason to believe that we will not be in the 18% to 20% range overall.

In terms of infra-addition, I think broadly infra addition has been in line with capacity. In fact, if you look at our CapEx as a percentage of revenue, we are in fact ahead of the guidance that we've previously provided to analysts and investors. I think this year we will end up with CapEx as a percentage of revenue being 5.6%

or lower. And this has been declining YoY. We've indicated that over the long term we expect CapEx to settle at between 3.5% and 4% of revenue, which is largely going to be maintenance CapEx, upgrade CapEx as we need. I don't think we have any very significant CapEx that's planned for next year. There'll be some routine hub upgrades, but outside of that, nothing very major coming up. We have sufficient capacity in the network. So, in that sense, I think you'll see capacity utilizations also going up in the next financial year.

On PTL, absolutely not. The business is not expected to grow at just the 16% to 20% range, despite the fact, of course, that the rest of the industry in the last quarter has been flattish or sort of very low single-digit sort of growth numbers. I think our ambitions are much larger.

The PTL market, as I mentioned, is a deeply unorganized market, and Delhivery is really going into that unorganized market. And our ability to grow, therefore, is not constrained by other players in this market. Our own ambition internally is certainly to grow the business overall at nearly 25% to 30% in the next financial year. And I don't see any reason for not being able to achieve that. I think as I'd mentioned in the past, picking the right markets to grow and picking the right clients, picking the right pricing is important. And that's something that, as you can see, we've been getting better at quarter-on-quarter. So, there's no reason for our growth to not be at that 25% to 30% benchmark for the next year.

In terms of competition, your question is valid. That said, I think in this industry we are reaching in some senses, a reckoning. The reality is that last year we had the same discussion in terms of how long these losses can sustain, and I think the reality is that incremental capital flow into this industry is now going to be severely constrained. And I think in the interest of sustaining themselves as going concerns, I think competition is going to have to look at their business models. So, I don't think that additional capital will be available. So, I'm not very confident that the industry structure that we currently have will continue. I think the industry structure from here should become more favorable towards Delhivery.

We were over 100% in any case, but whatever percentage of the overall profit pool we were in Q2, that's increased in Q3. And our view is that structurally there's no reason to believe that that won't increase. Also, the reality is that with a lot of the networks having shifted towards variable cost models, the fact is that there is no operating leverage in a lot of the underlying models. And as a consequence, as volumes grow, many of our competitors do not have the ability to actually improve their margins with time. Their only approach at this point has to be an increase in

yields, which will eventually either lead to Delhivery also increasing yields or will lead to lower volumes for them. So, either way it's accretive to Delhivery.

So, I actually think that we're getting closer and closer to a reckoning in this industry. I think we've said it in the past, there are too many players in the Express Parcel business and this industry has to consolidate. And I think the consolidating forces are becoming tighter and tighter.

GAURAV RATERIA

Thank you so much. I'll get back in the queue.

MODERATOR

Thank you. We'll take the next question from Lokesh Maru. Lokesh, please go ahead.

LOKESH MARU

Thanks for the opportunity. Sahil, one fundamental question on our model which is integrated in nature, right? So, in last one year what has also happened is Valmo has challenged that one way of working, right, their model would be more variablized in nature, let's say, but then the ramp up you have seen in last two years has been significant, right? So, in your opinion like what an integrated model took which was capital and time both, right? So, going forward, one is, let's say, Valmo serves Meesho, but if it is externalized, how do you see that scenario panning out? And also, it raises a question on the entry barriers in this industry, right, so your thoughts on the same?

SAHIL BARUA

Sure. I've said this in the past, the entry barriers in logistics, if you consider entry to merely be the ability to deliver a package are zero. If you own a bike, you're a logistics company. So, in that sense, I don't think that the entry barriers to logistics to start off are high. I think the last mile, as I mentioned multiple times, is the most commoditized part of logistics. And therefore, setting up a last-mile-heavy network is not always very difficult to do. Signing up franchise partners who work for, let’s say, the other self-logistics arms is a valid way to quickly and rapidly set up a last-mile delivery network. And the advantage of course is that the self logistics arms don't necessarily have exclusive tie-ups with the franchise partners that they work with. And so, they are free to work with Valmo or somebody else.

That said, there are significant barriers to scale in logistics, even if there aren't significant barriers to entry. Reliably delivering 800 million packages a year on time and with the speed that is required for customer satisfaction is a fairly difficult task. I think we've done our benchmarking and we're pretty confident that Delhivery's service metrics outstrip any of our third-party competitors and first-party competitors with variablized networks. Variablized networks unfortunately don't work as well. A network which comprises of one entity performing sortation, a second entity performing line haul, a third entity performing last mile only loosely connected is by definition going to have very significant speed problems and very significant coordination problems.

The other thing of course is that the cost of running these networks is higher than the cost of running Delhivery. I mean we've done the benchmarking and our belief is that our cost of delivery is anywhere between 8% and 10% lower than even the in-house variablized networks. So, I think the in-house logistics networks scaling up, as I've mentioned before, I had called this out last year and I've called this out on multiple quarterly calls, the impact of these networks was always going to be significantly detrimental to our competitors much more than Delhivery because they were also running variablized networks. And I think that's going to be a problem.

The second thing of course that will have to be contended with is that third-party players in this market who were servicing the player in question prior to their self-logistics adventure have been loss-making. And so, the reality is when you internalize those volumes, those costs accrue to you, whereas those costs were previously being paid by the private equity investors in those third-party businesses. And so, it'll be interesting to see what happens. I think there are interesting challenges ahead, but I don't fundamentally believe that it changes our answer on an integrated network being better and being the right network. Our speed metrics suggest that, our quality metrics suggest that. Our return rates are lower. Our cost per shipment is lower.

LOKESH MARU

Sahil, one more thing. On externalization of, say, Valmo or ATS or Instakart, how do you see that? I'm just calling out these names because they are the ones who have that backing internally and then again, the scale, right. So, in any way, do you see that disrupting some bit of volumes going forward?

SAHIL BARUA

Not in the least. For very simple reasons, let's ignore Valmo for a second. If you take the other first party players, I think one of them has released its financial results as well. And as I've mentioned in the past, their losses quintupled between FY23 and FY24, which is problem number one.

Problem number two is if you are, let us say, a first party logistics arm for Flipkart and for Amazon and peak season rolls around, how much additional volume are you going to get as a percentage of your total? Let's say you're delivering 500 packages in a delivery center for Flipkart or 500 for Amazon and you got another 30 D2C parcels. Your customer service is obviously going to take precedence over anyone else's. And I think this adventure has been tried in the past and it has failed. I would argue that externalization is more or less a dead on arrival proposition which has been tested and hasn't worked. Talking about something doesn't make it viable. And over two or three years, these companies have repeatedly said that they are going to externalize services without necessarily being able to break into anything of consequence because the service metrics don't hold up, the cost metrics don't hold up.

And as far as the variablized model goes, the reality is why would you, if you're a high quality D2C brand or an SME, trust your packages, which have much higher relative value to you than in a marketplace environment, to a third-party network where you can't even identify if the parcel is damaged or lost, who has damaged or lost it. There is a value to running an integrated network and I don't see that this is a threat at all.

LOKESH MARU

Understood. Last question from me. The fleet size number which you mentioned, if you could just elaborate on that piece. That's it. Thanks a lot.

SAHIL BARUA

Increase in the fleet size costs, you mean?

LOKESH MARU

Yeah, fleet size cost number, which we saw this quarter.

SAHIL BARUA

Yeah, I think essentially what happened in the first seven days of the festive season is that our heavy volumes actually were much higher. Heavy volumes across e-commerce, in fact, were much higher. The platforms have also reported this. And

so, the overall demand for vehicles of a specific kind, intra-city fleet in the major cities, so if you take Delhi, Bombay, Bangalore, et cetera, increased quite a lot. And as a consequence of that, supply was limited and overall pricing of the fleet went up compared to what we'd expected.

I think we had been operating so far with a completely third-party fleet. And our decision is that we will sign more long-term contracts with our fleet partners, locking in these rates for next year a lot better. So far, we've been able to always persist with spot contracts. Those will shift to fixed contracts next year.

MODERATOR

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

MUKESH SARAF

Yeah. Good evening and thank you for the opportunity. Sahil, sorry to kind of go back to the Express segment margins. If I look at your overall line haul expenses that you have on Slide 18, it has come off YoY as a percentage of revenue. But you do mention that that's one of the major reasons why your margin in this segment is down like 500 bps YoY. So, I'm just wondering if you've been able to kind of manage these higher line haul expenses in other segments ex of this Express segment, but you haven't been kind of able to manage that in this Express segment. So, I'm still not able to understand that. If you could kind of explain.

SAHIL BARUA

Sorry. Are you talking about the fleet costs that went up YoY were the vehicle rental expenses. This is the intra-city fleet.

MUKESH SARAF

So, the vehicle rental that you have on the same Slide 18 is that only the last mile fleet.

SAHIL BARUA

That is the intra-city fleet. So, Mukesh, the line haul vehicles are vehicles that go from one city to the other, then the same city vehicles from a hub to a delivery center, there is what is called a carting run. And then there is of course the last-mile fleet. So, the expenses that went up were the intra-city fleet. So to give you an example, there's a warehouse which has for instance dispersing a lot of sofa sets

or call it gym kits or whatever it is. When they are consigned stock in let's say Gurgaon to our sorting facility in Tauru, those vehicles are the ones where we saw a shortage of supply, and as a consequence of that we saw an inflation in the cost which you can see. So vehicle rental expenses went from 19.8%, or Rs. 434 crores in Q3 FY24 to 20.5% in Q3 FY25. Now ideally speaking this number with scale should have been lower than the 19.8% that we saw in Q3 FY24.

MUKESH SARAF

Right. So even if I look at this Rs. 43 crores going to say Rs. 49 crores, it still doesn't explain the 500 bps hit. I mean that that hit is like more than say Rs. 40 crores, Rs. 50 crores for us YoY in this segment.

SAHIL BARUA

This Rs. 434 crores going to Rs. 488 crores.

MUKESH SARAF

Yeah, yeah. Sorry, yeah. Rs. 434 crores going to Rs. 488 crores.

SAHIL BARUA

We should broadly have been at about Rs. 430 crores, Rs. 435 crores. So, if you take that, call it Rs. ~30-40 crores on revenues of the transportation segment.

MUKESH SARAF

Okay. That's entirely in the segment largely.

SAHIL BARUA

Yeah. So, the main impact is there, and there's some impact, as I mentioned, from the coming in of the Bangalore Hoskote facility, which has also increased fixed costs a little bit, but that will normalize for the next year. But the biggest impact is from the vehicle.

MUKESH SARAF

Okay. Got that. And secondly, on the PTL segment, I think after like six, seven quarters, we've seen first time a sequential decline in volumes. And I mean when I look at some of your other peers, listed peers, they've also seen some kind of a pressure on volumes this quarter. Are you seeing some signs of difficulty there, especially in the SME segment in terms of the PTL?

SAHIL BARUA

No, Mukesh. So, as I'd mentioned, actually December we closed very strongly. So, we were at about 147,000 tons of billable freight in December and we've continued very strongly into January. And we also announced, of course, that we have a big partnership which is starting with HPCL, which is going to be a significant volume into the PTL network. So, we are not seeing that. One of the things obviously is that Q3 typically tends to be a slightly flattish quarter versus Q2 because a lot of ship-out happens before the festive season.

MUKESH SARAF

Right.

SAHIL BARUA

So that's one of the things. The other is that at our end also one of the things that we do in the first part of October, the first two weeks or so is that we tactically moderate PTL volumes in a couple of origins where we believe that heavy volumes are going to be very high. So, in that sense, we could have seen a Q-o-Q increase also, but in defense of the Express business and just to make sure service levels were not in any way affected, we tactically tweaked a little bit of volume on the PTL business, but that was recovered in December and has continued into Jan. So, no structural shift.

MUKESH SARAF

Okay, no shift there. All right. Great. Thanks. That's it from my side. I'll get back in the queue.

SAHIL BARUA

Thank you.

MODERATOR

Thank you. We'll take the next question from Abhisek Banerjee. Abhisek, please go ahead.

ABHISEK BANERJEE

Hey. Hi, thanks for the opportunity. Sahil, the first question is on the customer profile for the Express Parcel business. You mentioned how the contribution of D2C has gone up, right. So, what would the breakup be around now? And given

you believe that most of the headwinds from Meesho insourcing is now out, right. So, what is kind of a number to kind of build in, in terms of revenue growth? Because if you're saying D2C is growing by 30% and if it is a certain percentage of your contribution though, how do you look at the revenue growth number for FY26 now?

SAHIL BARUA

Yeah, we don't break up our Express Parcel volumes by customer segment. That said, I can tell you that the non marketplace portion of Delhivery's total volumes is fairly meaningful and that continues to grow. From a revenue guidance standpoint, I think a couple of things. One is overall, as I mentioned, the e-commerce industry continues to sort of have headwinds. We continue to gain share. The market situation is a little complicated because as I'd mentioned, I think last year the reality is that some of the other 3PLs in this space chose to take price actions to boost volumes for a short period. I don't believe that is something that will continue into the next financial year given sort of the capital position and general situation in the market.

So, there is potentially a revenue upside opportunity for us which I think we'll see how it plays out over the next 30, 40 days because this is sort of the period when most people are renegotiating contracts with key customers. We don't have full insight into that just yet, but I think broadly, whatever market growth is, we will more or less be able to maintain our growth in line with market growth.

ABHISEK BANERJEE

Are there any signs of the say Flipkart's internal captives losing some share, and are you seeing any incremental share coming from these guys as they try to focus on quick commerce and all?

SAHIL BARUA

Yeah, I think things are pretty dynamic overall there are quarters where outsourcing does increase. There are quarters where outsourcing reduces a little bit. I think there is still a lack of a coherent strategy on the first-party logistics side. What's very clear though is that the first-party logistics operations are a drag on the overall earnings of the principals. And so, the question is at what point do you make the rational financial decision because outsourcing another 10% to third-party logistics will be net accretive to the principals and does not significantly alter the illusion of control over one's own logistics. So, it would be a great decision for themselves and for the industry at large.

That said, I'm not entirely sure just yet. These things will play out over the next couple of quarters. Yeah, I think there are many pressures to bear on each of these companies and we'll see what decisions they take.

ABHISEK BANERJEE

Got it. So, in terms of the rapid intra-city deliveries that you spoke about, so why do you think only Rs. 80 crores to Rs. 100 crores is where you can go in the next one year? I mean, what would be the rough idea in terms of number of warehouses that you believe you can set up, and how is it that you charge customers? Is it per delivery, or do you take a warehousing fee, or how does that model work?

SAHIL BARUA

It's a per delivery fee and there's also a warehousing fee included in this typical pricing is in the range of between Rs. 80 and Rs. 100 per order that is serviced. We expect to set up 50 dark stores in the top eight cities. The good thing is, on a lighter note, unlike requiring thousands of dark stores, if you have a two-hour delivery network, you can service the top eight metros with just 50 dark stores which are not too expensive to set up. So that's going to be the extent to which we will set up. And then depending on what the demand pattern looks like, we may add a couple of dark stores here and there. But I don't anticipate that it will be significantly different from that 50.

Now, why it will not be materially much larger is because I think you have to look at e-commerce as a whole. First of all, metros as a total percentage of the volume within e-commerce and specifically if I take what is called Zone A volume which is sourced in the metro and delivered in the metro is close to only about 8% or 9% of total volumes within e-commerce. This is material which is, for example, sourced in Delhi, warehoused in Delhi and delivered in Delhi.

Now you're talking about therefore the addressable market being limited to that 8%. Then on top of that the question is what kind of goods lend themselves to that kind of delivery to begin with? Half of e-commerce is soft lines, which are long-range items which don't lend themselves to quick commerce. Somebody wants to buy a specific T-shirt or wants to buy some specific kurta, for example, that doesn't lend itself very easily to this quick commerce kind of model. So that's half the market nearly gone out of the 8%, which are down to about 4%.

Then on top of that you say how much inventory will the brands themselves realistically want to stock in quick commerce. Even if you're a cosmetics brand and you have, let us say 100 SKUs, all 100 of them don't lend themselves to quick

commerce. At best, maybe about 10 or 15 of them will lend themselves to quick commerce.

You're really talking about a small percentage of a small percentage of a small percentage lending itself to the rapid commerce kind of model. Any further than that, of course, you can make the argument that I would like to make 75,000 items available to a customer within two hours. The problem then, of course, is that you have to set up gigantic pods. And the ability to set up a gigantic pod, for example, in Bombay is not going to come at a rental cost of Rs. 30 a square foot. It's going to come at Rs. 300 a square foot, which will obviate the profitability instantly. And if you go any further back in the supply chain, which is to say that I will set up gigantic pods, then you're essentially reinventing Amazon. So, I think that's why the market is broadly limited.

ABHISEK BANERJEE

Understood. That's very clear. And just one last question --

MODERATOR

Sorry to interrupt Abhisek, request you to please join in the queue.

ABHISEK BANERJEE

Sure. I will go back in the queue. Thanks.

MODERATOR

Thank you. We'll take the next question from Vineet Prasad. Vineet, please go ahead. Since Vineet is unresponsive, we'll take the next question from Sachin Dixit. Sachin, please go ahead.

SACHIN DIXIT

Yes, Sahil. Thanks for the opportunity. My first question is on Express Parcel basically. So, during the last earnings call, you mentioned that roughly 78 million odd shipments happened in October. November and December seem tepid from that perspective, right. We were on a good trend in October, but it dipped quite sharply. Can you elaborate more on that? What happened? Was it just the overall e-commerce demand evaporating or was there something else that turned around?

SAHIL BARUA

No. In fact, if I go back to my quarterly call at that time, when we'd spoken about it, I said that, you know, the 30% uptick that we had seen from broadly the 60- 61 million kind of benchmark to the 78 million, in fact, I believe my exact quote at that point was this is par for the course. It's similar to what we saw last year. Of course, this has been volatile in e-commerce over sort of a 10-year period. There have been occasions where the season has been 50% higher than the average and there have been seasons where it's been significantly less than 30%. But I think that 30% was par for the course.

If you look at that 78 million to 206 million shipments, after that we've added about 128 million odd shipments in the remaining two months. There's always a step down after the peak season. I think there's also buying fatigue. People have bought whatever they want to buy online in October and so volumes do sort of take a dip in November and December. And there's been a broader softness in consumption. You can see it for example in the food delivery numbers for instance, and that's of course affected e-commerce as well. I think broadly the consumption slowdown does affect e-commerce and that's what we saw.

SACHIN DIXIT

Understood. And it's just like at 59 odd million run rate for the remaining two months, it just feels it's probably even lower than what we saw last year during the same non-festive season. So that's why I was hopping on that.

SAHIL BARUA

We did 206 million for the quarter. 78 million in October, which gives you I think 128 million for the remaining two. So, 128 million by 2 is not 59 million.

SACHIN DIXIT

Understood, understood. Okay, sorry. My bad, bad math. My next question is on gross margin side. So basically, largely, maybe driven by the less operating leverage that we got, expansion has been slightly muted compared to what we have seen in previous years. I understand there was a Bangalore facility which came on board and could have resulted in some hit. I wanted to understand how this shape up going forward in the coming quarter, right, because generally, your gross margins tended to dip QoQ in Q4. Do you see that trend reversing this year, or is it likely to sustain?

SAHIL BARUA

I think broadly Q4 will be normative to Q4s that we have had in the past. Some of the expenses were one-time expenses or in the sense we built up some capacity during the peak season and we shed that capacity after the peak season. So that capacity we've obviously shed in January, and the second thing is, as I mentioned, as the PTL business grows, it does have a knock-on positive effect on the express business as well. And January volumes in PTL have been solid. February so far has been pretty good.

And so, as the PTL volumes grow, there'll be a knock-on positive impact on the express business because line haul expenses, for instance, will come down. And some of the overheating that we saw on the fleet cost side in the first week of October, which dented margins for Q3, obviously, that impact is not there in Q4, so that will also, to some extent, reverse. So overall, I don't think we'll see anything structurally very different in Q4.

SACHIN DIXIT

Got it. All right. Thanks so much.

MODERATOR

Thank you. We'll take the next question from Aditya Mongia. Aditya, please go ahead.

ADITYA MONGIA

Hi, Sahil and team, I had only one question. I just wanted to get a sense from you that at an overall Express Parcel level, if the growth for the company is what it is, is it safe to infer that the overall market otherwise is actually starting to grow less than 10%?

SAHIL BARUA

I think overall e-commerce growth has certainly moderated, Aditya. There's no question in this financial year. I think there's no question. The larger marketplaces obviously are private, so I don't know exactly what their numbers are going to turn out to be. But every indicator that we have from them is that volume growth has been fairly muted for all of them. And I know Meesho had a pretty blazing start

when they set up as a company, but the reality is that your base catches up with you over a period of time.

So, I think even their growth rate will come back to what is normative and similar to what Flipkart and Amazon are also experiencing, which to the best of our knowledge has been muted. Where we have seen growth is in the D2C segment, in the SME segment overall as a category even though individual players as I've mentioned may go up and down in any given quarter, but those segments of e-commerce I think continue to have reasonable growth.

ADITYA MONGIA

And just a follow up question, do you see levers that your customers can pull to make this number go back into the mid teens or as a conservative estimate as you plan incrementally?

SAHIL BARUA

I think I've said this in the past. If our customers shut down self-logistics arms, they would be able to inject $0.5 billion back into marketing and growing the market. That's the biggest lever they have. And on behalf of the industry, we warmly encourage them to do that.

ADITYA MONGIA

Got it. Those are my questions, Sahil. Thank you for the response. Thank you.

MODERATOR

Thank you. We'll take the next question from Vineet Prasad. Vineet, please unmute your line and go ahead. Vineet, we can't hear you. Okay, in that case we can take a follow up question from Gaurav Rateria. Gaurav, would you like to go ahead with your question

GAURAV RATERIA

Hey, thanks for taking me again. I again have a couple of questions. First, assuming that volume growth in the overall Express business remains subdued, do we have levers to get back to 17% to 20% margin range, or will it be a function of growth and thereby operating leverage in that?

Second question is why wait for price action from competition, and why we don't act as leaders and try to force consolidation? Is it not a good strategy?

And lastly, just a data point to understand better the cost per parcel metrics. Should it be looked upon more in terms of cost per ton, or cost per kg in order to better understand the cost structure for Delhivery as a whole? Thank you.

SAHIL BARUA

On express to get to the 17% to 20% margin, can we get there without significant volume growth, I think the answer is yes, we can. One is obviously, as I've mentioned, the PTL business continuing to grow will improve line haul costs for both the express and the PTL business. So, we should be able to get to that. And I don't anticipate that there will be very significant price movements downwards in any way. So, no reason to believe that we can't get to those EBITDA margins. I think as the PTL volumes grow, that should happen to some extent naturally. And the second, obviously, as I mentioned, is that the fleet costs in Q3 were a little abnormal which are starting to reverse. So, they've already reversed in Jan-Feb. So, as we negotiate these fixed contracts, I think we will get back to those 17% to 20% margin kind of range.

Why not force consolidation? I think the issue obviously is, in what sense. The reality is within the M&A opportunities for Delhivery, there's not much that we would be able to acquire in this case because the fact of the matter is that the volumes are highly concentrated for most of our competitors and so it's not clear what value we should ascribe to those volumes. I think the reality is it's better to let discipline enforce itself. So, we'll wait and watch. If the right consolidation opportunity becomes available at the right price, then obviously, Delhivery is a natural consolidator in the market. But I don't believe it's necessary for us to try to force anything at this point in time.

In terms of cost per parcel, a slightly different answer for e-commerce versus PTL. On PTL, you should absolutely look at cost per kilogram or cost per ton because internally we look at it at a large cost per ton, but also distance traveled overall. But cost per kg, cost per ton is an absolutely valid metric. On the parcel business, you can choose to look at it either as cost per kilogram, billable kilogram or cost per parcel as a whole. Of course, the problem is that the cost per parcel as a whole for Delhivery is very different for different package types, and so the composition matters a lot. So, we look at it as cost per parcel delivered, say sub 50 grams, cost per parcel delivered sub 500 grams, and so on in those slabs, and cost per parcel delivered in different zones, Zone A, Zone B, Zone C, Zone D, Zone E, and so on. So, it's a little more complicated than that, but as a broad sort of indicator, cost per parcel for the e-commerce parcel business is also a reasonable metric.

GAURAV RATERIA

Got it. I was asking more because it may not be comparable for competition because competition may have a very different composition of the volumes in terms of the weight they carry, average weight per parcel, or the distance that they travel.

SAHIL BARUA

You're right. And that's why we look at it when we talk of cost per parcel, we also compare versus competition at every price slab, at every zone slab. So, when I talk about Delhivery's cost per parcel being lower, it's not just at an aggregated level. We know, for example, that our cost is competitive. It's lower at Zone A sub 250 gram, Zone A sub 500 gram, Zone A up to 1 kg, and so on and so forth. So, it's across all slabs and all weight categories.

GAURAV RATERIA

Thank you.

MODERATOR

Thank you. We'll take the next question from Koundinya Nimmagadda. Koundinya, please go ahead.

KOUNDINYA NIMMAGADDA

Thank you. Sir, I'm just trying to add up the growth numbers. I mean our volumes rose at only 2%, but if I were to compare that with the growth in say a D2C or vertical players, I mean that stuff at around 20%, 30%. And when you say that non-marketplace volumes are fairly meaningful for us, I'm just trying to bridge this gap, I mean 20%, 30% growth for these players and then our total volumes being only 2%. So where is the gap? Like what would be the mix of e-commerce volumes or rather online commerce ex non-marketplace in total share, and will that add up to this 2% growth? If you can provide some color over here.

SAHIL BARUA

See, we don't share client-level overall volume so we can't reveal individual clients and segments. That said, you're right, the overall growth in the D2C and SME aggregator segments has been higher in the range of minimum 30% for D2C, 50% plus for SME. Put together as I mentioned is a meaningful percentage of our business. Of course, a larger percentage than this comes from the marketplaces

that we serve. And obviously, not just the marketplaces, even the likes of verticals like for instance, Nykaa, AJIO and so on.

Some of these accounts as example, where Reliance has had a year where volumes have been lower in this financial year than in the previous year. So, there are also clients that we've had where their overall volumes have de-grown. Similarly, we used to service a customer called AEPL, which was acquired by Amazon, which now has been folded into Amazon, and I believe volumes from there are zero because that effectively has been shut down. And so we have some clients which also churn out. We have some clients where their volume declined. And the marketplace volumes grow by less than obviously by what the D2C SME and aggregator volumes grow.

KOUNDINYA NIMMAGADDA

Sir if I were to ask, I mean, I understand that you don't want to give client level data, but on an approximate level basis would Valmo still contribute, I mean, Meesho would still be around 20%, 30% of your volumes or is this lower number and therefore the impact of insourcing should not be meaningful from you for here? In that case, what is the kind of tentative range of volume growth that you're looking at for FY26? Should it be in double digits or do you think that it's going to be in single digits? Any color that you can put over here, please?

SAHIL BARUA

Yeah, so we don't reveal individual client volumes and I would prefer not to reveal sort of what individual client makeup is. Our top clients, as I've mentioned, our top three or four clients put together, top five customers will form close to less than half of the overall revenue of Delhivery. So, we don't have a very significant client concentration as a whole.

In terms of volume growth guidance for next year, I think, look, it's hard to say because there are a couple of compelling factors. One is obviously headwinds facing e-commerce as a whole. I think it remains to be seen how these companies continue to drive growth next year. I think more investments in marketing, more investments in consumer acquisition driving more category growth. If those continue at a pace, then there's no reason to believe that volume growth in e-commerce will not come back. I think there is demand and going into Tier 2, Tier 3, Tier 4 cities a bit more localizing, a bit more will help because that's really where a bulk of the growth has to come from.

So, we'll see. Our anticipation is that hopefully these measures will come in and we will get our fair share of that. I think there are also cost pressures that, as I mentioned, first party logistics companies face. Third party logistics companies, of course, face it as well. And as people look at their mix, I do believe that a more financially prudent decision would be to outsource a little more to third party players and we'll see how that plays out. These are active conversations that we are having with all of our customers. And if there's even minor shifts in their strategy, the upside to Delhivery could be large. But it's hard to say at this point I think because these strategies are still relatively fluid.

But I think the reality is that overall, from an insourcing standpoint, most of the sort of insourcing that could be done by the three platforms is already evident. And so, the impact of additional insourcing per se will not be as large as it's been in the past. So, I don't anticipate there is going to be a very big headwind. But again, this industry is pretty dynamic. Things change on a weekly basis. So, we'll know more as we go along.

KOUNDINYA NIMMAGADDA

Sure. Sahil, thanks for answering that question. Hope things get better in future. Thank you.

MODERATOR

Thank you, everyone. That was the last question. Please reach out to the IR team for any further questions. And before we end, on behalf of Macquarie, I would like to thank Delhivery for the opportunity to host this earnings call. Over to you, Sahil, for any closing remarks.

SAHIL BARUA

Thank you all for joining the earnings call. Thank you to the Macquarie team for hosting us this evening and look forward to speaking with all of you after our Q4 results. Thank you.