Date: November 22, 2024

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 half year ended September 30, 2024

Dear Sir,

This is in continuation to our earlier letter dated November 14, 2024, regarding audio recording of the Earnings Conference Call held on November 14, 2024, at 06:00 P.M. (IST) on the performance of the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and half year ended September 30, 2024.

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

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

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

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

Encl: As above

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Delhivery Limited Q2 FY25 Earnings Conference Call

Nov 14, 2024

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

MR. AMIT AGARWAL, CHIEF FINANCIAL OFFICER

MR. VIVEK PABARI, HEAD - INVESTOR RELATIONS

Moderators: MR. BAIJU JOSHI, MACQUARIE CAPITAL

MODERATOR:

Hi, good evening, everyone. Welcome to Q2 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, and Mr. Vivek Pabari, Head of Investor Relations at Delhivery. As a reminder, all participant lines will be in listen-only mode and participants can use the raise hand feature to ask any questions post the opening remarks. I thank the management team for providing Macquarie the opportunity to host the call.

And now invite Mr. Sahil Barua to take us to 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, Sheryl, for hosting us. Very good evening to all of you who've joined our earnings call this evening. As always, I'll begin with a short presentation on financial and operational performance for Q2. We'll keep this short and then happy to take your questions.

Broadly as a headline before we begin, Q2 is when Delhivery sets up for the festive season. As many of you are aware, Q3 is the peak season for online commerce, and typically, this is the quarter in which we expand capacities across real estate, people and vehicles in preparation for the peak season.

Overall, before we get into the numbers as a broad summary, this is our second consecutive quarter of PAT profitability overall as a business. Our Express Parcel business continued to be stable and well set up and our Part Truckload business has continued to show robust growth Q-o-Q into Q2 as well. Quick snapshot of numbers for Q2. Revenues came in at Rs. 2,190 crores, which is a year-on-year growth of about 13% and broadly flattish quarter-on-quarter. We delivered 185 million consignments in our core e-commerce Express Parcel business. Industry standards on this, of course, vary. Some players also declare return shipments separately. Including returns, our total volumes stand at 216 million consignments for Q2 FY25, which is a year-on-year growth of about 3% and quarter-on-quarter of about 2%.

In terms of overall freight tonnage, we delivered 427,000 tons of part truck freight in Q2. This continues to be industry-leading growth. Year-on-year, our volumes have grown by about 23% and quarter-on-quarter PTL volumes have grown 7%. Overall EBITDA came in at Rs. 57 crores, which is a positive EBITDA margin of 3% as compared to a negative EBITDA of Rs. 16 crores for the same quarter in the last financial year, and as opposed to Rs. 97 crores in Q1 FY25. PAT for Q2 came in at Rs. 10 crores, broadly breakeven, as compared to a PAT loss of Rs. 103 crores in the same quarter in the last financial year, and a PAT of Rs. 54 crores in Q1. Overall, the company continues to be highly well capitalized. We continue to have Rs. 5,488 crores of cash and cash equivalents on the balance sheet.

Quick snapshot of overall operating metrics as usual. Pin code reach continues to be at 18,775 pin codes. Please note this is on the base of 19,300 pin codes as defined by the Indian Post. When orders are received for pin codes outside of what is defined by the Indian Post, we convert them into India Post-compatible pin codes. We continue to service 220+ countries through our partnerships with FedEx and Aramex. We've had a significant growth overall in terms of number of active customers. Across all of our business lines, we continue to grow strongly in the SME and D2C segments in e-commerce, and obviously continue to add new customers in the PTL business. Total customer base stands at 38,000 customers as of Q2, as compared to 35,000 customers in Q1, and 30,000 customers from a year ago, a year-on-year growth of nearly 30%.

Overall infrastructure grew from 18.73 million square feet of real estate to 19.49 million square feet of real estate as of the end of Q2. This includes, by the way, 0.5 million square feet of real estate that's on extremely short-term leases, essentially purely for the e-commerce peak season. Adjusting for that, infrastructure across the network remained broadly stable between Q1 and Q2. Total number of gateways, including processing centers, have stood broadly constant between Q2 FY24 and Q2 FY25 at a sum of about 278. So I'm adding the row for gateways and the row for processing centers. Automated sortation centers grew marginally from 42 ASCs as of Q1 FY25 to 45 ASCs as of Q2. Total number of parcel sorters increased from 61 to 66. There was a marginal increase in freight service centers from 120 to 124, including a couple of freight centers that were commissioned purely for the peak season. Express delivery centers and partner centers continue to remain broadly constant from 4,400 to about 4,450. There was a mild amount of increase in the team size, partner agents, and fleet size towards the end of Q2 specifically. Team size grew from 67,900 to about 73,800 in preparation for the peak season. And overall, fleet size grew from 15,800 to about 16,400 on average in preparation for the peak season.

In terms of overall financial performance, year-on-year, we've seen revenue growth of 13% from Rs. 1,942 crores in Q2 FY24 to Rs. 2,190 crores in Q2 FY25, with the quarter-on-quarter growth being broadly flat. Express continues to remain obviously the core business and forms about 59% of total revenues. The PTL business continues to grow as a percentage of total revenues, and in volume terms, and now forms 22% of revenues as of Q2 FY25. 7% of the business comes from the truckload business and 9% from the supply chain services business.

In terms of individual business lines, the Express parcel business has grown 7% in revenue terms year-on-year from Rs. 1,210 crores in Q2 FY24 to Rs. 1,298 crores in Q2 FY25. Overall volumes have remained broadly flattish in the 180 million range. Q2 FY25 closed at 185 million packages delivered. Including RTOs, overall volumes have stood at about 216 million for Q2 FY25. The part truckload business continues to show robust growth. We continue to have industry leading growth in this business and our investments in building the sales team that we began about five quarters ago continues to reap dividends. PTL freight revenues have actually grown 27% year-on-year from Rs. 373 crores in Q2 FY24 to Rs. 474 crores in Q2 FY25, which also represents a 9% growth quarter-on-quarter. Overall part truck freight tonnage grew 23% between Q2 FY24 and Q2 FY25 and 7% quarter-on-quarter. Yield growth, therefore, has also happened year-on-year. The truckload business has remained broadly flat at Rs. 150 crores of externalized freight. Year-on-year growth is about 5% and quarter-on-quarter at 2%. The supply chain services business has grown 21% year-on-year, from Rs. 164 crores in Q2 FY24 to Rs. 197 crores in Q2 FY25. As you're aware, Q2 is typically a seasonal down quarter for our consumer durables clients. Despite that, we've seen very significant growth in this business. We continue to have a highly robust pipeline of clients who we expect will begin operations in Q3 and Q4. So well positioned in this business overall. The cross-border services business has grown 43% between Q2 FY24 and Q2 FY25, from Rs. 41 crores to Rs. 59 crores.

In terms of service line profitability, the overall revenue from services stood at Rs. 2,190 crores. Overall service EBITDA came in at 9.3% in Q2 FY25, which is about Rs. 203 crores of service EBITDA, versus 11.9% in Q1 FY25 or Rs. 258 crores, largely due to investments in capacity that are due just before the peak season and also as a consequence of some infrastructure going live in Q2. The Express Parcel business service EBITDA margins stood at 15.1% for Q2 FY25 at Rs. 196 crores, as compared to 18.2% in Q1, again, largely driven by expansion of capacity in preparation for the peak season. Part Truckload remained broadly stable at Rs. 14 crores of service EBITDA in Q2 FY25, or at about 3% and supply chain services declined from Rs. 11 crores of service EBITDA in Q1 to negative Rs. 9 crores in Q2 FY25, largely due to a one-time provision as part of a contractual agreement with one of our clients. Overall

corporate overheads declined from Rs. 221 crores to Rs. 193 crores, again owing largely to a one-time adjustment, which is a reversal of a provision taken in a prior period, and stood at 8.8% of overall revenues, while other corporate overheads remained broadly stable. In terms of adjusted EBITDA, adjusted EBITDA stood at Rs. 10 crores versus Rs. 37 crores in Q1 FY25, a change of 1.2 percentage points. And overall PAT at Rs. 10 crores as opposed to Rs. 54 crores in Q1 FY25.

A quick snapshot of PAT evolution over the last 10 quarters. As you can see, overall PAT has continued to improve year-on-year. Q2 FY25 is our second consecutive positive PAT quarter coming in at Rs. 10 crores, as opposed to Rs. 54 crores in Q1 FY25, but a huge improvement versus Q2 FY24, which had an overall PAT loss of Rs. 103 crores. We anticipate that the rest of the year will continue in the same vein.

In terms of overall quarterly financial performance as a summary, revenue from services, as I mentioned, came in at Rs. 2,190 crores. Including other income, total income came in at Rs. 2,309 crores, which is a growth of 13% year-on-year compared to Rs. 2,043 crores in Q2, and a quarter-on-quarter growth of 1.2%. Overall expenses lagged growth in revenue, total expenses stood at Rs. 2,294 crores, which is a year-on-year growth of 6.8%, and a quarter-on-quarter growth of 3.2%, leading to a net PAT of Rs. 10 crores in Q2 FY25 versus negative Rs. 103 crores in the same quarter last year and Rs. 54 crores in Q1. And a total EBITDA of Rs. 57 crores or 2.6% for Q2 versus negative Rs. 16 crores for Q2 FY24 and Rs. 97 crores for Q1 FY25.

The working capital position continues to improve across the board. As you can see, net working capital days as of the end of September '24 stood at 22 days versus 27 days as of March '24. Receivable days continued to reduce from 62 days as of March '24 to 59 days, and payable days increased from 35 days to 37 days.

So in summary, Q2 has been a fairly stable quarter, set us up well for the peak season in October and November, continued to be PAT profitable for us overall, despite one-time adjustments that had to be made in the supply chain services business, and overall, the PTL business continued to grow at an industry-leading growth of 27%, Express Parcel broadly flat. With that, I'm happy to take questions.

MODERATOR:

Thank you, Sahil. We'll now start with the Q&A. As a reminder, 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, is on Express Parcel margins. Even when we look from Q2 to Q2, margins have gone down from 18% to 15%. Can you help us understand what has happened and how should one look at a steady-state margin going ahead?

SAHIL BARUA:

Sure, do you want to ask all the 3 questions?

SACHIN SALGAONKAR:

My second question is, we are hearing mixed feedback on the festive season in terms of how it is picking up. So, would love to understand how you guys are seeing an impact on the festive season.

And lastly, is on the Express Parcel growth. I mean, it may not be easy for you guys, but it would be great if you could take a stab at this. How much of the weakness is perhaps on the back of consumption slowdown and how much because of an insourcing by operator? And I'm asking that question because I want to get a sense in terms of what could be a growth for 3PL industry going ahead when things normalize.

SAHIL BARUA:

Sure, let me try and answer each of them. First, quickly on margins, Sachin, if you look at the service EBITDA margins for the Express Parcel business, Q2 has come in at 15.1% versus 18.2% in Q1, but if you look at the previous financial year, Q1 to Q2 was 18.1% versus 16.8%. So there is typically a decline in the service EBITDA margins in Q2 in the Express Parcel business. Last year, the peak season was slightly delayed compared to this financial year, and so some of the capacity commitments would have come slightly later. So they would have come between the end of Q2 and the start of Q3, whereas this time, a larger percentage of the capacity investments have happened in Q2, because the peak season actually began in the last week of September. So I think September 26th, if I'm not mistaken, was exactly when the peak season began. So that's part of the reason why there's a delta. Overall, if I look at our capacity investments, broadly speaking, about between Rs. 10 and Rs. 12 crores would have been the impact in September alone of the capacity investments between the two financial years. And so when you add that back, broadly the Q2 FY25 margins for the Express Parcel business would be in line, more or less, with what we saw in FY24 overall. So, no structural change to the margins in the Express Parcel business overall. I think we expect to continue to make service EBITDA margins overall in the range of 17% - 18% in Express Parcel even going forward.

The second question was in terms of the festive season. I think overall, if I look at our October numbers, our closure for the October period has stood at about 78 million consignments which is about, if I take an average, just as an average of 185 by 3, so let's say 61 million. So October alone, we've seen a growth of 30% in shipment closures in the peak period, and obviously, there'll be some spillover effect that goes into November as well. So overall, I think we're pretty satisfied with the way peak season has played out. Obviously, we are the largest network in Express, and typically, we're the largest and highest quality network, so volume does tend to flow a little differentially into the largest and highest quality network at this time. So our growth at 30%, I think, is broadly pretty solid, and in line, if I'm not mistaken, with what at least our clients seem to have projected.

In terms of Express Parcel growth across the industry, I think that's a complicated question. I think if you look at it, the bulk of the insourcing related growth pang, and obviously here you're referring to Valmo, I think a large bulk of that has already been experienced in terms of the growth of Valmo, because I think in the last financial year, there was fairly significant growth in Valmo's overall contribution to meesho volumes. So I think outsourcing has a relatively smaller sort of impact this year as compared to what it did last year. I think broadly on e-commerce, as we see it, there is an overhang from just consumption being softer overall. But so far, if I look at our numbers for October and the early part of November, I think we seem pretty satisfied.

SACHIN SALGAONKAR:

Got it. So when consumption recovers, we should see growth normalizing to 13% to 15% for industry, right?

SAHIL BARUA:

I think that's one, but I'll also take this opportunity for a minute. See, I think the other thing from our standpoint, as I mentioned before, is that we will now start accelerating efforts to increase our share even if the market does continue to remain slightly sluggish. There were a couple of things that I've referred to in past earnings calls, which we are starting to amp up now that the peak season is over. So one of them for example is obviously, this will take a little longer to play out, but we will for instance launch a third-party shared quick commerce network for e-commerce brands, and we do expect that to increase volumes in the major cities, that's one.

The second is we're in the process of launching a faster product for regional surface shipping and national air shipping. So as both of these kick off, I think we again will have the ability to drive incremental share. Some of this has taken time for us to

negotiate, but with our overall buying scale and our overall network scale, I think we're very confident that this also leads to incremental volumes.

The third is as our PTL business has grown, I've mentioned in the past, we see opportunities in specific lanes to significantly pass on efficiency benefits to some of our customers which we'll be more than rewarded for by the yields, because these will typically be long distance orders. And so we will grow the overall share even in these sub-segments.

And the fourth is I think as we expand from a product standpoint, Delhivery One, which is the panel that we use for D2C customers and for SME customers, there's a whole bunch of value added services that also will go live in this quarter, which include three things, really. One of them is the address disambiguation service, the other is the RTO reduction service and the third will be insurance. All three of which we also anticipate will increase yields on the Express Parcel business. And the fourth is we're also in the process of figuring out how to launch a much larger aggregator reseller franchise business, physical franchise business across the country. So think of what DTDC has historically done. I think we've discovered that large numbers of customers want to ship with Delhivery, but don't have access to a physical point, especially SMEs. So as we expand that, I think irrespective of the market remaining sluggish, we're going to be pushing the pedal on growth.

SACHIN SALGAONKAR:

Thanks, Sahil. Very clear. Thank you.

MODERATOR:

We'll take the next question from Sachin Dixit. Sachin, please go ahead. Okay, I don't see Sachin in the queue. We'll take the next question from Aditya Bhartia. Aditya, please go ahead.

ADITYA BHARTIA:

Hi, Sahil. Am I audible?

SAHIL BARUA:

Yes, Aditya. Please go ahead.

ADITYA BHARTIA:

Perfect. Sahil, my first question is on volume growth that we have seen in the Express Parcel business. This time around, we had an earlier Diwali, and despite that, we are looking at a 3% kind of revenue growth, while the numbers that you're sharing for October are looking fairly encouraging. So how is it that the growth has been so muted, entirely on account of consumption slowdown? Because you're saying that insourcing has also not really contributed much this year.

SAHIL BARUA:

So, I think, first of all, the Diwali (peak sale season), this time, comes on the 26th of September overall, which is why a bulk of the growth that we see in volumes is sitting in October and not in the previous quarter. I think in the previous quarter, even historically, if you go back, ever since we've been running Delhivery, the reality is that Q2 has generally been fairly flattish as compared to Q1. The real growth really comes in Q3. So even overall industry volumes between Q1 and Q2, my sense is, have not increased dramatically when you take the industry as a whole. In fact, I believe one of the captives has also declared their financial results for the previous financial year for FY24. And you can see that overall growth in revenue and overall growth in volume, consequently, is unlikely to be very significant. I think the Q2-to-Q2 growth in e-commerce overall has not been sort of as significant. Q3, of course, as I mentioned, October, we've grown 30%, and I think that's a very positive sign.

I also think in Q1 and Q2, given the fact that we've had challenging weather conditions and so on, the impact of quick commerce on some of the volumes in certain categories may also have been slightly larger. So, overall, not a very big surprise that Q2 versus Q1 has remained broadly flattish. On insourcing, I think our point is very simple that the two largest players, obviously, which are Flipkart and Amazon, there hasn't been a very significant change in terms of their insourcing strategy. In any case, they've been insourcing a fairly significant percentage. My point is mainly that on the third player, in the case of bulk of the action that would have affected the third-party industry would have happened in the previous financial year. I think we've said this in the past, in this kind of a network, scaling the initial period is not very difficult but incremental scale becomes more difficult. The bulk of the impact would really have been in the Jan, Feb, March period, or Q4 of the last financial year. We don't think that it will have as significant an impact going forward.

ADITYA BHARTIA:

Sure. And Sahil, this 30% growth that we have had versus pre-festive period, how has this number generally been in the past few years? And post-Diwali, do we see a bit of a slowdown, a bit of a lull in volumes?

SAHIL BARUA:

It's been very variable over the last several years, to be honest. Last year would have been broadly almost in the same sort of range, 30% peak to non-peak period. But to be honest, when the e-commerce market was in its infancy, these numbers used to be as high as 50%, 60%. But we've also seen a couple of years where this has been lower than that. So I think 30%, the way I would look at it, is broadly par for the course. Has there been a slowdown after the peak period? Compared to the peak period, obviously. But broadly speaking, no, I think so far we're okay even in November. One of the things that we are obviously benefited by a little bit, and where we are seeing an improvement in our position in the market is that our overall volumes on heavier packages have actually increased even more. As I've brought up multiple times in the past, we are more or less the only carrier who can handle heavy consignments, especially among third-party carriers. It's a unique specialty of Delhivery, and that's obviously because we run the PTL business. And our heavy volumes actually have improved fairly significantly, both through right at the end of September, but also in October and November. And actually, this is a strategic capability that we're going to be pushing even more. Obviously, a large part of this in the Diwali period is for things like consumer durables, refrigerators, air conditioners, furniture, et cetera. But post the peak, what we will continue to push on is really growth in everything that weighs more than 3 kilograms, which is really a very large sort of overall market sub-segment.

ADITYA BHARTIA:

Understood. And sorry, just one clarification. You mentioned that post-Diwali, our volumes are roughly similar to how they typically are in the pre-festive period. So, assuming roughly, let's say, 60 million of monthly sales in November, December, if I add 78 million for October, we are speaking about almost 200 million-odd volumes, which is again going to be kind of flattish year-on-year. So, are those the kind of trends that you're currently seeing, that the growth is somewhat missing because of weak consumer sentiment?

SAHIL BARUA:

I don't know, hard to say, because right now, if I look at our numbers, we're well-positioned. I think we will grow compared to the same quarter last year. Like I said, there are also a number of other conversations which have been ongoing with our

clients, where a lot of these conversations get consummated in this two-month period, because this is the moment when e-commerce companies really start thinking about the next calendar year, next financial year as well. Like I said, we have, our objectives are cut out, we're going to increase our share overall on heavies, we're going to increase our overall share on regional surface, we're going to increase our overall share on national air as well. So as we do these things, let's see how they play out in November, December, but if those play out well, then there is no reason why we shouldn't see growth compared to the same quarter last year.

But overall, I think, more in the e-commerce industry, you've heard this commentary from FMCG companies now already that there has been a softness in consumption. And I think we'd be foolish to think that it wouldn't affect e-commerce as well over a period of time. So I think the consumption slowdown is real, I think its impact on the e-commerce industry is real. From a Delhivery standpoint, though, I think we've been biding our time stabilizing our operations, making sure margins are stable, capacity investments coming in line, increasing the share of PTL. And now that we have many of these factors in place, we will push the pedal on e-commerce growth as well, even if the market doesn't grow. We have that ability.

ADITYA BHARTIA:

Sure, that's helpful, Sahil. Thanks.

MODERATOR:

Thank you. In the interest of time, request all participants to please limit the number of questions to two. We'll take the next question from Gaurav Rateria. Gaurav, please go ahead.

GAURAV RATERIA:

Hey, hi. Thanks for taking my question and great execution on PTL. I have actually a couple of questions. I will just maybe state all my questions, and in respect of time, whatever you can answer, you please. The first question is on PTL margins. So I understand that capacity creation would have impacted margins in Express Parcel in 2Q, but why despite a good Q-on-Q growth rate, PTL margins have remained stable quarter-on-quarter.

The second question is on Express margins on a year-on-year basis. Is that decline primarily because last year the capacity creation investments were more around 3Q

and this time, it is more around 2Q? Is that a reason why the margins on a Y-o-Y basis look down for Express Parcel?

The third question is around the customer-specific impact. You sounded very confident that this has stabilized. What drives that confidence?

And the last question is that, theoretically, if Express parcel volume were to remain in sub-double-digit like a 8%-10% growth, do you think that our corporate overheads are geared to kind of handle that kind of a growth? Because I understand that our corporate overheads are geared to handle much higher revenue growth. So is there a room to kind of relook at our corporate overheads, if that continues for a little bit longer? Thank you.

SAHIL BARUA:

Sure. Thanks. I'll try and do this as quickly as I can. On the PTL margins very quickly, PTL shares the network with Express Parcel and heavy as well. And so in that sense, there isn't sort of an isolated PTL margin that we report overall. So when capacity is expanded for the network, capacity is expanded overall for the entire network as a whole. And so PTL has to bear some of the costs of expanding the network for Express and heavy, right? So that's broadly the reason why PTL margins on their own have not increased. So when we expand, for example, a gateway or when we expand fleet capacity, part of that cost also gets attributed to the PTL network, given that we run a totally integrated network. Because part of this network also services heavy.

On Express Parcel margins, year-on-year, the largest impact is fundamentally, because of the capacity expansion for the peak period. Between any given set of quarters, there's always a little bit of variation that comes from client mix. But other than that, broadly speaking, the impact is largely because of this. There is also one smaller factor. It's not a very, very large factor but again, a couple of basis points it makes a difference is, if you remember, airlines had introduced a specific surcharge in the period of September and October for air freight. So that would also have had a small impact on September this year which is somewhat new, some of this we've obviously passed on to our customers downstream as well. That'll reflect in October as well.

In terms of customer-specific impact, look, I think like I mentioned in the past, specifically with the third player in the space. I think the reality is Delhivery is the lowest cost player in the space and our delivery outcomes are better. That's reflected not just in our overall volumes, that's reflected in the share of the market that we command outside of the top three players as well. And we have an extremely large share of the market that is not the top three marketplaces. And so Delhivery's quality

of service and Delhivery's cost in that sense are very, very clearly established. Given that, whether it's the two big marketplaces or Meesho in that regard, I think having Delhivery as a strong third strategic partner is in the interest of every platform. And it's not inimical to the interests of any of the three marketplaces to have a large, stable, diversified, low cost, high quality logistics company as a partner. And so I think the reality is nobody benefits by reducing our overall share. The second thing is that we don't have the client concentration that the other three peers in this space have. Most of them are dependent precisely on one or two clients. And so when you're dependent on only one or two clients, managing peaks becomes much harder, and especially when you only run an Express Parcel business. One of the reasons why the peaks affect us a little less than they do any other 3PL in this space is because we have the ballast of the PTL business, and the heavy business, both of which allow us to establish more stable capacities and more stable service levels. And so in that regard, like I said, there's absolutely no benefit to any of the players to really not having Delhivery as the dominant partner that they need to have outside of self-logistics. So that's what gives me confidence that there's no reason for any of them to shift out of Delhivery.

In terms of Express Parcel, if the industry remains at 8% to 10% growth, is there an opportunity to cut some amount of corporate overheads? I think that'll certainly be the case. In any case, corporate overheads are something that, if you look at it, have remained stable for nearly two years. The wages are about nearly half of that overall corporate overhead. So even with wage inflation being what it is, the reality is we've kept corporate overheads absolutely stable for two years. So we will continue to exercise the same judiciousness on corporate overheads. And of course, if it turns out that we believe that the e-commerce industry is not going to grow at all and not just the e-commerce industry, if there's any part of our business which we believe is not going to grow at the rates that we expect, we will evaluate the corporate overheads. But that's what I want to be clear, our aim is not to optimize the corporate overheads for a given size of business, it is to grow the business. So we would rather use the people that we have to go and aggressively build out the products that I'd spoken about earlier, which is the new products we're building on Express Parcel, which is expanding the reach of our PTL business, which is expanding the quality of our supply chain services business. So I think that it's not an immediate step, but it is something that we evaluate in any case on an ongoing basis.

GAURAV RATERIA:

Thank you so much for the comprehensive answer. All the best.

SAHIL BARUA:

Thank you.

MODERATOR:

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

ACHAL LOHADE:

Good evening, team. Thank you for the opportunity. First, in terms of the one-time provisions, if you could elaborate a little bit in supply chain as well as the corporate overheads, the reversal what you kind of hinted.

Number two, the CapEx, how do we look at for FY25 and '26 and which areas of the business? And number three, if we exclude the insourcing part, what is the like-to-like growth year to date, if you could have that number handy? Thank you.

SAHIL BARUA:

Sure. So let me quickly just answer question number two and also answer number three and then Amit, CFO, will take over. Very quickly on like-for-like growth in, if you exclude the chaps who have captives, the interesting thing is that our SME and D2C business, in fact, the SME business volumes year-on-year are up nearly 50%. And the D2C business will be up close to about, nearly about 20% on volume, right? As I mentioned several times before, one of the other things is we also choose fairly selectively which clients we work with. So there are some clients, for example, where, Delhivery performance is 20%, 30%, where effectively we are required to act as extended sales arms, where we don't work with them. So we exclude those entirely. But in the core segments that we are bothered about, which is high quality e-commerce companies, SME, D2C, et cetera, our growth has been pretty robust, and I think we've actually gained share in this period.

On CapEx, very quickly, I'll let Amit provide you a detailed answer. But in fact, I think on CapEx overall, we are ahead of where we had expected to be in terms of CapEx as a percentage of revenue. There's been a very sharp drop in H1 overall. I think CapEx for H1 would have come in at close to about 6.6% of revenue. We expect the entire year to come in at broadly about 6.5% to 6.6%, 6.7%. And so overall, reducing the CapEx intensity of the business, we're ahead on plan overall, and we expect this to continue pretty aggressively. But I'll really let Amit talk you through more detail on both the first question and the second. Amit, please go ahead.

AMIT AGARWAL:

Thanks. Continuing on the CapEx part, our CapEx investments continue to primarily go into the areas of tractor trailers and automation and furniture fixture, leasehold improvement inside the facilities. As we have indicated that trucking CapEx remains right now at about 2%, 2.1% of revenue, as we are in a catch-up phase to the steady state tractor trailer penetration in our network. Once that's completed by the end of this year, we should start tapering towards 1% to 1.1% of revenue as trucking CapEx in the FY26 period.

You will again see improvement in automation. plant and machinery, furniture fixtures in the next fiscal year as well. So we should be in the sub-6% range for FY26 on the CapEx. Going to the provisions aspect of Q4, there are two specific one-offs. One was in supply chain services business, where we took inventory adjustment of about Rs. 10 crores. It's a provision right now as we continue to audit our fulfillment centers and some of it we may expect to reverse in the subsequent quarters. The other part is the Rs. 21 crores reversal on account of oxygen concentrators that we had purchased during COVID time. These were imported from a foreign vendor who had entered into a contractual dispute with his back-to-back vendor, because of which we had to provision this amount. However, over the period, we were able to make progress through negotiation and legal processes and we have recovered Rs. 21 crores out of the Rs. 28 crores they owed us in October 2024. So, for the same Rs. 21 crores, provision has been reversed in Q2 of FY25. There is a Rs. 7 crores additional payment that we expect over next four to six quarters, as per our agreed plan with them.

ACHAL LOHADE:

Sure, thank you. Just a clarification, you said you received the money in October. Have I understood right?

AMIT AGARWAL:

Yes.

ACHAL LOHADE:

And that's already reflected in September quarter number, right?

AMIT AGARWAL:

Yes, the provision has been reversed, because it was only a provision.

ACHAL LOHADE:

Understood. Thank you so much. Wish you all the best.

MODERATOR:

Thank you. We'll take the next question from Jainam Shah. Jainam, please go ahead.

JAINAM SHAH:

So, this question is firstly related to the PTL segment. We are almost second or third largest company in terms of PTL in terms of volumes, whereas our margins are still at 3% or something. So, what differentiates us in terms of margin from other players who are making, let's say, 10% plus margin? And what kind of margin we can make, let's say, 10%, 13%, 14% going forward? What volume number we can be making those margins? So, this is what related to the PTL, like it has, of course, progressed well from a negative 20% to positive 3%. But going forward, what could be the trajectory?

And second question would be on the e-commerce slowdown. What could be your view? Is this quick commerce impacting the e-commerce or is it overall consumption slowdown? Or going forward also, let's take it from next two to three years angle, is it quick commerce becoming, you can say, a substitute for the e-commerce and which can eventually impact us going forward as well?

SAHIL BARUA:

Sure. On PTL margin trajectory, I think, look, first of all, I think you've already pointed it out. There's been an absolutely sequential and continuous improvement in the overall margins of the PTL business from negative 20% to positive 3%, which is where we are right now. As I mentioned in the past, the difference between us and other players in this industry is our appetite for growth. We've grown 27% year-on-year in revenue terms and 23% in terms of volumes. I think if you added up the rest of the listed players in the PTL space, broadly speaking, while I don't remember the exact numbers, but growth would be fairly close to zero overall for everyone put together. And I think that's the difference. So were we to absolutely constrain the PTL network to say we don't wish to do any tonnage larger than 425,000 tons, reflecting the margins would not necessarily be very difficult. We would just have to downsize freight service stations, downside hubs, and so on. That said, as I mentioned this before, I think India is a market where there's massive amount of spends by enterprises across the board on freight. And as markets mature, the reality is that a part of the market does shift towards Express part truckload freight. Our belief is that any company that's not

investing in building capacity for India's growth in freight volumes is actually not making the right decision. It is the only way for costs to ultimately reduce for overall supply chains in India to be optimized correctly. So we will continue to invest for growth in the PTL business. The margins in the PTL business will continue to expand as overall volumes go up, obviously, because the incremental growth in capacity is not that large. We do think that PTL margins will mirror the Express Parcel margins as the business continues to mature. We've already gone from minus 20% to plus 3% in a fairly short period of time. And we think as volumes go up, we will go from plus 3% to the plus 16%, plus 17% sort of range that we have in Express Parcel as well.

The other interesting thing, of course, in PTL, unlike in Express Parcel, is that the dynamics of the market are fundamentally different. In the Express industry, the reality is that part of the reason why, if you look at the overall profitability for the Express industry, it's negative. Delhivery, while we are profitable, and significantly so on the Express Parcel side, even if you include the captives, as I mentioned, one of the captives has released their financial results for FY24, which shows a 5x increase in loss. And when you include all of the captives and you include even the other third-party players, the net profitability is likely to be barely zero or negative for all of them put together. The reality in the Express industry is that there are too many players. In the PTL space, of course, the difference is that there are too few players. The market remains highly unorganized. The total organized players in this space, Safexpress, Delhivery, VRL, Gati, we all have the ability to grow into this market while continuing to increase margins, all of us, not just Delhivery alone. So I think that's going to be our strategy. I think we will get to the Express level margins as the business grows. Now, whether it takes us exactly three quarters or four or five quarters, that will depend on how volumes come in.

In terms of quick commerce and its impact on e-commerce, I've said this in the past. I know this isn't necessarily the most popular opinion. But the reality is that quick commerce is impacting kirana. The reality is that its impact on e-commerce is not as large as its impact is broadly on the larger retail ecosystem. When somebody is buying vegetables or fruits or buying a pack of cigarettes online using a quick commerce app, that's not something they're buying on Flipkart or on Amazon, or on for that matter, Meesho, where they're buying plastic products and home improvement products and so on. So fundamental SKUs are also different to a large extent across the broader world of e-commerce and quick commerce. I think there will be in a few cases, there will be marginal impact on e-commerce. Certainly, in the beauty and personal care space, there will be a demand for some products, certainly. Contact-lens solution, for example, is that something that should come to you via quick commerce application? Why not? But if you say 20,000 SKUs of BPC, can you reliably do it through quick

commerce? The answer is no. And I think the reality is it's also getting slowly recognized by the quick commerce firms. Because if you go from 15-minute delivery to four-hour delivery, saying that we want to do a bigger range of SKUs and larger warehouses, you are essentially reverse engineering a warehouse. So it's not quick commerce anymore. One more step and you're reinventing an Amazon fulfillment center, which already exists and is highly efficient. So I'm not sure that the impact of quick commerce on e-commerce will be as significant. I think even as quick commerce expands its total number of SKUs, it's going to look a lot like ecommerce. And in e-commerce, the advantage is that the existing players have large entrenched advantages as well. So I think it will be interesting to see how that plays out. We're not particularly worried. And from our standpoint, look, irrespective of what happens, we will launch a third-party quick commerce service in any case. Obviously, not to do something like 15 and 20-minute delivery, because we don't believe that that's necessary for all categories of products, but we will launch a third-party service. We are in the process of piloting the launch of this in Bangalore with one of our key BPC partners. And the advantage with us, obviously, is that we not only service their quick commerce requirements, we service their overall requirements, pan-India. And not just for B2C, but in this case, even for B2B. And so there's a lot of logic for companies in this space to partner with Delhivery to solve their problems for national e-commerce shipping, national B2B shipping, air shipping and quick commerce. And so irrespective of this, we will launch our service. The only part that we will not play in, obviously, is 15-minute deliveries of cigarettes or 15-minute deliveries of food and so on, the highly low AOV kind of segment in this market.

JAINAM SHAH:

Got it, sir. Thanks for the elaborate answer. Just a follow-up on the first question. Of course, we are having a very strong growth in the PTL segment, where the rest of the players have struggled. Wanted your view on the pricing of ours as compared to the competitors, and there have been few price increases taken by the competitors. Is it eventually leading to our volume growth, or we are also planning some price increase in terms of like while reaching from 3% to 15%-16%? Are we factoring any pricing, or it is just, you can say, more of a capacity utilization and eventually leading to better margins?

SAHIL BARUA:

So Jainam, it's interesting that you point it out. So yes, some of our competitors have passed price increases in the PTL space. We also have passed some price increases in some parts of the PTL space where we felt that we were underpriced. But broadly

speaking, we price at the same levels as the market. So, Safexpress obviously is larger than us, they are an excellent benchmark in this industry and large, well known and stable competitor. And so we typically, we'll benchmark ourselves versus them or versus other players in the market. If you look at it, our yield has also gone up over a period of time. In fact, I think our Q2 yield will be nearly Rs. 11 overall. And when we began this journey, our PTL yields were closer to the Rs. 10 sort of benchmark. So over a period of time, our commercial discipline has improved. Over a period of time, the quality of our service has allowed us to go to clients and essentially have a slightly higher premium price compared to the other players, especially the unorganized players who they work with. But the interesting thing is when I was talking about the 15%, 16% service EBITDA margins that we think PTL can make, that does not include yield improvements. So, if we were to improve yields going forward, and we will continue to do it tactically, that will be in addition to the 15%, 16% that I've already forecast.

JAINAM SHAH:

Got it, sir. Thank you very much, sir.

MODERATOR:

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

SACHIN DIXIT:

Yeah. Hi, Sahil. Thanks for the opportunity. My first question is with regards to the plans for third-party quick commerce services. I remember a couple of quarters back, you did highlight that you will be opening shared warehouses for people to ship quickly. Is this on top of it? Can you elaborate a bit more on this plan?

SAHIL BARUA:

Yes, so the plan is very simple. We are going to open these third-party warehouses. This will be powered by Delhivery's warehouse management system, which we use already in our fulfillment centers that we run for e-commerce and B2B. And this will be linked directly to our transportation network. Our WMS is already synced with our transportation network. So these will be smaller in-city warehouses. Typically, we expect the sizes of these warehouses to be somewhere between about 2,500 square feet at the smallest end to about 5,000 square feet at the upper end. Broadly speaking, this will, to begin with, be probably about a six to seven city operation. We are beginning with the city of Bangalore, because that's obviously the mecca of quick

commerce in some senses. And then we will launch obviously NCR region as well, but even selectively within NCR. The idea is very simple. If you're an e-commerce company that wants to provide a rapid commerce service to your customers, essentially Delhivery's WMS is giving you, first of all, real-time visibility of your inventory and its location, which allows you to display this on your website, pointing out which SKUs are available for a rapid commerce or a quick commerce delivery option in real time. Consumers can obviously then choose to buy this on your website, and then we will facilitate the delivery. Our anticipation given the radii that we have currently planned is that even with reasonable order aggregation, which will allow us to keep the costs of delivery fairly low, we should be able to deliver all of these orders within the fastest end, probably about an hour, and at the slowest end, the plan will be to deliver within four hours, which I think meets the requirements of all of our clients. And the idea is that you share this inventory. I don't think any e-commerce company in India has sort of the order density or even the necessity really to go and set up a fully self-owned quick commerce network. It doesn't make sense. Also, this is a very dynamic space, so, selecting which SKUs, the quantities of the SKUs to place in a variety of locations, managing that versus your B2B, versus your traditional e-commerce operations, et cetera, is fairly complicated. So the idea is that we go to absolutely everybody and say, look, you can share this in-city infrastructure. Let me be honest, it's not vastly different from what we do in any case with our e-commerce fulfillment services. We have a number of e-commerce companies for whom we provide essentially a white-labeled Amazon Prime kind of service, where effectively they can store inventory with us in deep reserve fulfillment centers, and then from there, we do local and national delivery for them. This is just a scaled-down version of that at a city level.

SACHIN DIXIT:

Fair enough. My second question is on the line of basically what we saw in terms of service EBITDA margin dip in Express Parcel. My question largely is basically, we have been obviously investing into automation, into building capacity across the board since inception, but largely over the last four quarters, we have expanded capacity. But if you look at H1, our volume growths are only 1%-odd. Is it the reason for this dip could be a lack of capacity utilization or basically de-utilization?

SAHIL BARUA:

No, and I think if you look at it, the incremental investments that we have made from a capacity standpoint have been indexed more to the growth of the PTL business and to some extent the growth of our volumes in heavies. Actually speaking, the

incremental investments on the parcel side have been very small, because the reality is we already have these mega gateways and our sortation centers have been there. So we've been able to sort of not have to invest huge amounts of capital in retooling or expanding the parcel network. But we are at this point supporting already 27% revenue growth year-on-year in the PTL business. And we have seen significant growth in the heavy business also year-on-year, which is where we need to make these capacity investments. And that's sort of where the investment has gone, not so much on the parcel side. On the parcel side, the change in margin between Q1 and Q2, as I'd mentioned, one is obviously because of the fact that the peak season this time is closer to the end of Q2. In fact, the peak season began on September 26th, which means we had to start taking up capacities a little earlier. And this is anyway typically the season in which not just Delhivery, but every 3PL and even the captives typically will invest and bring a reasonable amount of capacity online. So some amount of dip from Q1 to Q2 is anticipated, it is expected. In this case, the delta Q2-on-Q2 year-on-year is largely because of the fact that the peak this time is closer to, has started in September.

But structurally, I just want to re-emphasize, there is no change in the structural expected margins of the Express Parcel business. Last year, we made between I think at the lowest end 16% and at the higher end 20.6% service EBITDA. We don't think that structurally those margins will change in this year. For the first two quarters, they already haven't. Q3, we have a reasonable line of sight in any case. So we don't see any reason for that to structurally change. And like I mentioned, we do this in a world where blended yields are at Rs. 70 and parcel yields are what they are. So despite an environment which is price competitive, despite an environment which is challenging for most 3PLs, Delhivery continues to make 17% service EBITDA margins on the Express business.

SACHIN DIXIT:

Right. The reason why I asked that question, right, obviously, we have been highlighting since IPO that 50% to 60% incremental gross margins we see on transport business. This is probably the first quarter that we are seeing that not happening, right? If I look at Y-o-Y, our revenues have improved, but our incremental gross margins looks much lower. That's why I was asking the question.

SAHIL BARUA:

Understood. Thank you.

MODERATOR:

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

MANJEET BUARIA:

Thank you. Sahil, I had three questions all on Part Truckload business. First was if you could just explain if our Part Truckload business is different in any way, fundamentally from what a Gati or a TCI Express or a Safex does. And where I'm coming from is I think these guys have lot of branches in many cities. I'm not sure whether we operate on the same model. So, just a basic question there.

Second question on PTL was how much of our PTL volume is mandated to be on an express sort of mandate versus how much of our PTL volume is just normal PTL today, where the customer doesn't really care about the timeline to be express?

And the final one was, our PTL business, can we start giving service level data on on-time delivery and cargo claim ratio? So, just helps us appreciate the point you have been making. Thank you.

SAHIL BARUA:

Got it. Understood. All very good questions. On the PTL business, your first question is how are we different from most of the other players in this space? I think the business, and there's no shame in admitting this, I think the business that we look up to the most in India as sort of an absolutely gold standard PTL business is Safexpress. And our first ambition as Delhivery is at the bare minimum to be able to do what Safexpress does. When you have a competitor which is so high quality, why would you not want to do exactly what they do? And therefore, in that sense, if your question is, are we different from Safexpress fundamentally? Yes, we have operational differences in terms of how we orchestrate the network, our infrastructure may look different, but we are both high quality service providers to the PTL industry. We are both high quality Express service providers to the PTL industry. And we would certainly love to, I mean, who wouldn't want to build Safexpress?

But in terms of how we're different from the rest of the industry, my only simple answer would be, Safexpress and Delhivery are high quality players in the space. We are fundamentally different because we are invested in delivering a high quality express experience to all of our customers. And I think that's just a fundamental philosophical difference, and therefore, a fundamental operational difference and a fundamental execution difference between us and everybody else in this space. The branch models vary widely, even among the players that you'd mentioned, actually. Our branch model, of course, is different from Safexpress as well, but also different

from Gati, different from VRL, and so on. Fundamentally, we operate fewer branches. Our total number of freight service stations is only 120 across the country. For everything that doesn't go through a freight service station, the advantage is that we are able to utilize our DC network, which we use for e-commerce. And so that allows us to have a significantly more expanded reach on a directly served network versus a franchise served network. And we are able to cross-utilize resources between our PTL and our Express Parcel networks. So that's at a very high level, the difference.

And of course, there are a number of differences in terms of sort of how we orchestrate and route within the network, the overall interfaces, the fact that we're integrated with the heavy network. But I won't get into that today. Let me put it this way, your question, are we different from other players in this industry? Operationally, yes. From a technology standpoint, yes. Obviously, from a growth standpoint, it's quite visible. From a margin standpoint, I don't think over a period of time, we will be lagging the industry. We expect to be differentiated in a positive fashion with higher margins. We would love to be Safexpress as the first ambition, and then hopefully, everything going well, outgrowing them. The rest of the industry, frankly, I don't think you can compare. These are apples and oranges.

On PTL volume, you said, how many customers choose Express versus normal. On a very light note, I've never met a customer who wants their product slower. So, all customers want their products to be treated as Express products, really. And that's part of the reason why Delhivery has grown 27% a year, which is that increasingly companies are coming to players like us and saying, we want inventory to reach its destination faster. It doesn't matter what you make. In what world would you want it to reach its destination slower? And especially if Delhivery, and Safexpress, for that matter, are able to deliver it for you at a faster speed and at a lower cost, which is broadly comparable to what you pay for slower delivery, why would you not want it? The fact in India is very simple, which is it is possible to deliver higher quality of service at the same cost that low quality players operate at. And that's really the market that Delhivery, and not just Delhivery, Delhivery and Safexpress are both clearly going after. And obviously, in our case, it's reflected in the numbers and the growth which is 27%. And apart from that, also in the fact that our yield has also gone up over this period. So over a period of time, I don't think a market for poor quality, cheap logistics in India is going to remain at all. So all customers are going to say, we want express delivery effectively. And because the only way to deliver slower delivery is to drive your truck more slowly. But it's not clear why you would do that. The last piece is on service level data, as well as on cargo claims. I think this is a fair point. We will look at whether we can actually provide cargo claim data. Overall, what I can tell you is that claim ratios for us have reduced consistently. We had peaked in terms

of claim ratios during the Spoton integration, which was a long time back, two years back. We continue to see quarter-on quarter improvements in overall claims. We'll see if we can start publishing that data.

In terms of service levels, while I'm always very happy to provide service levels, our on-time delivery performance on freight typically tends to be in the sort 89% to 93% range on Delhivery's defined speeds. So, I do want to be clear that Delhivery's defined speeds are often, across the industry, faster than the defined speeds that other players provide between two points. And so, in some senses, even if we were to provide the data, it wouldn't be exactly comparable. On our internal expectations that we provide to clients, we typically are in the 89% to 93% range. There's a significant variation, of course, that happens week-on-week, because typically in the PTL industry, volumes are highest in the fourth week or the last week of the month. And so service levels tend to dip right at the end of the last week and at the start of the first week. But otherwise, we remain broadly in this range.

MANJEET BUARIA:

Got it. Sir, just one follow-up question was, when you say you and Safex do high-quality experience for the customers, what are the quantitative KPIs you track for that?

SAHIL BARUA:

Well, one you've already referred to, I mean, I've referred to both, really. One is obviously delivery speed, and the other is defects or claims, effectively delivering on-time and in-full.

And the other one, of course, that I tangentially refer to, but is important for customers is reach. See, a lot of PTL networks, the reality is that the core reach of their network on the self-managed network is fairly small. The core reach will typically be 3,000 pin codes, 4,000 pin codes, 5,000 pin codes. And everything else will be classified as what is in the industry parlance called ODA, which is an out-of-delivery area sort of delivery and then you charge a premium for it. Whereas in Delhivery's case, because we have the DC network, practically all of the 18,775 pin codes that we serve for Express Parcel are a direct serve non-ODA network. So customers look at reach as well. So reach, speed, and quality.

MANJEET BUARIA:

Got it. Thank you so much.

MODERATOR.

Thank you. We'll take the next question from Vineet Manek. Vineet, please go ahead.

VINEET MANEK:

Yes. Hi, Sahil. Thank you for the opportunity. Just two questions from my side. One is on the Express Parcel segment. So the way we look at the industry currently, especially from the captive perspective is the 90:10 ratio versus the insourcing and the outsourcing. So over the next two years, do you feel that this ratio can materially start changing because of the cost per parcel to them versus us, especially on the e-commerce parcel side? Or they have built a capacity and they would not like to change this insourcing versus outsourcing ratio?

And largely, my second question is on the last-mile side of the delivery. So just like the models of the quick commerce evolving very fast for many of the players, do you think that this can be one of the challenges in terms of the availability of the labor or maybe the cost per parcel of the labor going forward over the next few quarters or maybe in the next one or two years?

SAHIL BARUA

Yes, let me start with the second. Obviously, there's no question that the labor market in India is challenging. There's no question that the labor market in India has tightened over the last couple of years. It's become harder to find people to deliver not just e-commerce packages, but pretty much anything. And obviously, road conditions being what they are, weather conditions being more variable, this is a job that over a period of time has become more difficult. I think from our standpoint, we have long taken this view. We do not treat the workers who work with us as gig workers. We pay more than a fair wage, which is indexed very clearly to the cost of living in every city that we operate in. and our aim is to make sure that we have a certain minimum base of full-time employees as well who deliver on our behalf. It's the best way to make sure that you have a really steady, reliable capacity at all times. So despite labor conditions being challenging, you can see that overall our economics are quite favorable. I do anticipate, though, that the labor situation will continue to remain challenging. The good thing for us, as I've mentioned, is that whether there's a regulatory change on gig worker rights, et cetera, those things are going to have very limited impact on Delhivery, if any at all, because we're already ahead of the curve on this.

In terms of the captive ratio, it's hard for me to comment on whether they will change the 90:10 ratio to anything, because well, one, obviously, I can't comment on what

somebody else's strategy is or should be. But what I can tell you is that, look, like I mentioned, the financial results are out for one of them. The burn is significantly higher than it was in the previous financial year. Now, it's hard for me to say anything. At the end of the day, if a company is not going to be financially motivated, it's hard to prescribe exactly what its future path is going to be. All I can tell you overall is that I don't think things will get much worse in the 90:10 as far as third-party logistics is concerned, because I think you do need to have a strong partner, given variabilities in your own network. It's inevitable. At any point in time, your network could be affected by weather. It could be affected by local issues. It could be just a pure operational mismanagement issue. And therefore, having a strong partner who can work with you on a reliable basis is important. And I think no matter what their individual strategies, all of the players within captive logistics have realized that Delhivery is that partner. And they reward us for our high quality service and also for the benefits we have in terms of pricing. My view, of course, personally, is that the right ratio is not 90:10, but significantly different. I think everybody in the industry, especially the two biggest marketplaces, save very, very large amounts of money by outsourcing. Even relatively speaking, even if you go from 90:10 to even 80:20, I think the reality is that both of the large marketplaces in India will save very, very significant amounts of money that is ultimately in the best interest of both of their shareholders, right? But until such time as they're not completely financially motivated, I don't know whether things will change or not. I think it's a good idea. It saves everybody money. It makes the entire Indian logistics ecosystem significantly more efficient. We are the lowest cost player. We are the highest quality player in this space. And I think at some point, sense will prevail. What point that is, it's hard for me to predict. And at that point, I think we'll do very well.

VINEET MANEK:

Got it. And for the heavy goods, as we have highlighted that we have a significant share with the top two e-commerce players. So is the ratio very different, especially in terms of the heavy goods supply, or even that stays the same, like a 90:10 kind of a ratio for the largest two e-commerce companies?

SAHIL BARUA:

No, it's very different, actually. It's not the same 90:10 ratio that is there. This, you have to break up actually by subcategory also, because it varies a lot. Everything heavy, for example, is everything that weighs over 5 kgs. Now, something that weighs 5 kg, as an example, the ratio of outsourcing instead of 90:10, maybe something like 80:20. But by the time you're getting to the really heavy stuff, bicycles, gym kits,

ladders, mattresses, home appliances like refrigerators or washing machines, and so on, that ratio could be vastly different there. And it's also very geography-specific. The ratio, for example, in the metros for some of these heaviest categories may be, let's say, 60:40, 70:30. But by the time you're getting out of the metros, those ratios may be where actually the third-party player, which is us in this case, will actually have a higher share than the in-house logistics arm. And that's where the integration of the PTL and the heavy network makes a very, very big difference overall. We're the only player who has the ability to offer that service, reliably pan-India.

VINEET MANEK:

Got it, got it. Thank you for patiently answering the question.

MODERATOR:

Thank you. We'll take the next question from Anshul Agarwal. Anshul, please go ahead.

ANSHUL AGARWAL:

Hi, thank you for the opportunity. Sahil, my question is with regards to the explanation that you gave for the third-party service that we'll be providing, that we are currently in the pilot mode. Do you think that structurally, the distance traveled for a parcel on our network will sort of reduce, given the fact that our customers would want their customers to get everything quicker?

SAHIL BARUA:

Are you asking about the entire Delhivery network aggregated?

ANSHUL AGARWAL:

Yes, generally, e-commerce guys also wanting to get their products delivered quicker. Would supply chain sort of build out a network in such a kind that the transport aspect of the whole parcel ecosystem reduces, the kilometers that a parcel travel reduces?

SAHIL BARUA:

That is a hugely complicated question. Let me do my best to try to answer this as simply as I can. You'll have to, again, break this into subsegments of users. Certainly, what will happen, as an example, for the biggest metro cities is that there will be an overall reduction in distance. There's no question, because in-city warehouses will

reduce the distance traveled by packages for a small fraction of them, compared to delivering from a distant fulfillment center.

So if I take the city of Bombay as an example, instead of delivering from Bhiwandi to somebody who lives, let's say, in Mahim, you may actually deliver it from a smaller warehouse which is, I don't know, let's say it's in Khar or in Andheri or somewhere. So obviously, that change will happen. But that said, I do want you to bear in mind that supply and demand both have to be influenced for distance to reduce. If you want to buy a sari which is made by a guy in Surat, and you happen to live in Agartala, quick commerce is not going to reduce the distance that parcel has to travel.

The second thing also is that you have to look at where incremental consumer growth is going to happen. The reality is that the largest cities in India already are fairly penetrated from a consumer standpoint. The reality is that if Indian e-commerce is to accelerate its growth, e-commerce has to penetrate far beyond the top 8 or 10 cities. You have to be in the next 1,000 cities. And as consumer growth in all of those cities goes up, the only way to really reduce distance traveled per shipment is to actually go back to the classic e-commerce model of forward fulfillment with deep reserve warehouses, which is something that Delhivery already offers. So, if you're an e-commerce company, as an example today, you can warehouse with us on a variable cost basis in four different regions instead of actually servicing everything out of, let's say, a Delhi or a Bombay or a Bangalore. And that's how you reduce distance. So I don't think structurally quick commerce on its own is vastly going to reduce the distance traveled by a package. For some categories in some cities, it might. But the real reduction in distance will come as demand in Tier 1, Tier 2, Tier 3 cities, semi-urban, even parts of rural, starts increasing, and as the fulfillment network goes forward into all of these locations.

ANSHUL AGARWAL:

Clear, Sahil. Just a follow-up on this. So if demand for e-commerce becomes more democratized, maybe because of quick commerce or just generally otherwise, distance traveled for a parcel might reduce on our network. Would that be a correct conclusion?

SAHIL BARUA:

Overall, over the long arc of time, distance traveled per parcel will reduce anyway.

ANSHUL AGARWAL:

Got it. Thank you so much.

MODERATOR:

Thank you. We'll take the next question from Shrinidhi Karlekar. Shrinidhi, please go ahead.

SHRINIDHI KARLEKAR.

Okay. Yes, Sahil. Yes. Thank you for the opportunity. So, Sahil, you alluded to four or five very company-specific initiatives to drive up growth, particularly with the aim of gaining some shares. Would it be possible to elaborate a couple of them, which will you think are material and can have a higher impact on the growth? And also exactly what services you are offering and what are opportunities out there? Yeah.

SAHIL BARUA:

Yes. So fundamentally, these are, like I said, a couple of things. One is we will be expanding our regional surface NDD product with better cutoffs, which means, let's say you want to deliver out of Delhi and you want to deliver to, let's say, Hisar or you want to deliver to somewhere just outside Jaipur or so on. Today, we will be increasing the speed of that delivery operation.

And the second is, so far, we have been a smaller participant overall pan-India on the air express segment. So we will, to a small degree, expand our air express product. We've largely been flying, for instance, mainly on non-prime flights. We will also expand to flying on prime flights, because I think there's a certain amount of demand for certain categories where people want products between, let's say, Delhi and Bombay next day, ordered in the evening, delivered in the day and the next day and so on. So that's the product that we will launch. That's one. The second is I've already spoken about is the product that we're piloting in Bangalore, which is the third-party intra-city rapid delivery product.

The third, obviously, is fundamentally the data products that sit on Delhivery One, which is a way for e-commerce companies, obviously, the ones which care about these metrics to reduce return rates, for example, or to disambiguate addresses, and therefore, improve chances of delivery, thereby preventing reattempts. And the advantage is that these are services that Delhivery has built out for internal use. So we're really just externalizing them. And obviously, on the freight side, as well as on the parcel side, launching what is effectively a secure product or think of it as an insurance product.

And the fourth, as I mentioned, is really expanding Delhivery's offline reach as well, which is really expanding the Delhivery franchise program. So far, our approach has always been really that e-commerce companies will discover us and will ship via Delhivery One and so on. And we have an online product, but we've discovered that there are very large numbers of small businesses across the country, who don't necessarily want to interact with the logistics company via this form of an interface. While we do have the Delhivery direct app, and there are many ways for them to approach Delhivery, some of them really want to have the neighborhood store, which has the ability to route into the country's largest courier, which is us. And so we will open up this program as well. So hopefully, you'll start seeing Delhivery around your neighborhood a lot more than you have so far. And we've pretty high hopes that that will enable SMEs and even individual consumers, to a large extent, to route their shipping needs and even some of the freight needs into the delivery network.

SHRINIDHI KARLEKAR:

Right. And also, you said something on the 3PL side as well, right, passing on some efficiencies, what you are exactly referring to there?

SAHIL BARUA:

3PL side? Apologies.

SHRINIDHI KARLEKAR:

Yes. So one of the initiatives you highlighted in earlier comments was like, some of the efficiency that you are gaining, you aim to pass on to some of your customers for a higher growth.

SAHIL BARUA:

No, no, sorry. I meant that in the PTL business, first of all, even without doing any of these things, we anticipate that the margins in the PTL business will continue to improve and we'll eventually get to the margins that we have in the Express Parcel business. But the advantage that we have is because we use more efficient form factors for delivery and because of the automation that we have in our key hubs, over a period of time at that stage, we anticipate that we should have a lower cost structure than other players in this industry. And if we discover those advantages, then we will have the ability to pass on some of those benefits back to our customers in the PTL space.

SHRINIDHI KARLEKAR:

Understood. And Sahil, last question, if I may, so you do talk about some of the inefficiencies having own captive network for e-commerce companies, but are you seeing in some of the cases where the realization, like for example, in heavy, are these guys realizing that maybe it's best to be outsourced on a selective product category or route basis? Is that kind of realization coming through or they're still looking at overall picture only?

SAHIL BARUA:

Oh, it is starting to come through. And by the way, it's an interesting question that you ask. It is not just in heavy and not just in specific categories in heavy. So we are having this conversation, not just with obviously the two large marketplaces, but in general, even players who have historically relied on other unorganized third-party players to do the heavy category, we're discovering that these categories they want to outsource to us entirely. One good example, for example, is furniture, where we have a disproportionate share overall of the amount of furniture delivered across the country. The other interesting one is a lot of bicycles were bought in this period, mattresses, the heavy form of home category, again, is something that comes to us a lot. And interestingly, once we enter this category, the interesting thing is that we not only have the ability to provide huge efficiency and service to the marketplaces, but even to existing offline players in this space, which is where it starts becoming interesting. We're suddenly the logistics partner of choice, and we can go and have an unreasonable right to win with all mattress companies in India, because of the service that we provide. So yes, we are seeing that this sense is dawning. And I think over a period of time, for the captives to really realize cost benefits, this is the approach that we think they will take and they should take, which is to slowly identify which categories really do not fit within the captive network properly and to start outsourcing those en masse to Delhivery and to other players, perhaps.

SHRINIDHI KARLEKAR:

Okay.

MODERATOR:

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

ABHISEK BANERJEE:

Yeah, Sahil, just one question. With regards to, say, the rapid logistics, intra-city logistics that you spoke about, that there is a competitor which kind of claims that it

was, the network was built to handle that kind of a business, right? So what do you see as your right to win in that space?

SAHIL BARUA:

Sorry, I'm not sure I understand. You're saying that somebody has told you that their network is purpose-built to deliver four-hour delivery?

ABHISEK BANERJEE:

No, as in, they started off with quicker deliveries. Yes, one of your competitors.

SAHIL BARUA:

But what does that mean? We've always done same-day delivery. If you have a delivery station in Dwarka, and you have a customer in Dwarka today, even Delhivery will likely deliver that order in 15 minutes.

ABHISEK BANERJEE:

Okay.

SAHIL BARUA:

I think that claim is bogus. There's absolutely no sort of difference. There's no specific sort of network design that is required to make sure that you can do a more rapid delivery. It's an absolutely outlandish claim.

ABHISEK BANERJEE:

Okay. Fair.

SAHIL BARUA:

Delhivery's right to win, to be very clear, is that we are the largest logistics company in the country. We have delivery stations which are within two and a half kilometers of every consumer in every urban area in the country. And we have 50,000 bikers. So it's not a question of a specific network. I think this is, yes, there's no way.

ABHISEK BANERJEE:

Okay, fair enough. Also, to Amit, why have you taken the reversal into the other expenses and not as an exceptional item?

AMIT AGARWAL:

Because it was charged to the other expenses when we made the provision. That is where we have reversed it from.

ABHISEK BANERJEE:

Got it. And the working capital reduction that we have seen in this quarter, is that something you believe will continue, the 22 days odd which we are seeing now? Or do you expect it to revert back to a higher level?

AMIT AGARWAL:

So, I think exactly about a year ago, I had indicated that we will be able to reduce the working capital day by one to two days every year for the next two-three years, and we have been able to achieve that. The difference that you see in March that it increased, is due to seasonally high quarter-end for one of our consumer durable clients, where we ended up inbounding a lot of stuff and outbounding as well. So there is a very large revenue buildup that happens within the 15 days of March, because of which the receivables increase and payables decrease, because FTL placements are done as prepaid. So that's the primary reason. We expect to see this number to continue to improve by a day to two days every year. In both Express and PTL, we are very close to our steady-state working capital. There is not much room to improve. But in other businesses, supply chain services, FTL and cross-border, there is room to improve for us, which should result in one to two days reduction per year.

ABHISEK BANERJEE:

Understood, sir. And just one final question to Sahil again. So during the earlier part of the call, you kind of mentioned that most probably most of the disruption with regards to insourcing is behind us. In that case, is it fair to assume that your earlier guidance of 15% to 20% kind of revenue growth in Express Parcel can be achieved from H2 onwards or would you rather not go back to that?

SAHIL BARUA:

I think, look, it's hard to comment, because it will also depend on what happens to the market overall, et cetera. So I don't really know. And while certainly, I think that the bulk of the insourcing sort of problem is behind us, people make jerky moves. I don't think that it makes sense. I don't think it will happen. I think there's a nice equilibrium

that we have all reached. So let's see. I'll have more information every quarter as we do these calls.

ABHISEK BANERJEE:

Fair enough. Thank you so much. Thanks.

SAHIL BARUA:

Thank you.

MODERATOR:

Thank you, everyone. That was the last question. 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, Baiju. Thank you, Sheryl. Thank you to Macquarie for hosting us this evening. And thank you all for joining the call.