Date: November 10, 2023

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

Scrip Code: 543529

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

Symbol: DELHIVERY

Sub: Transcript of Earnings Conference Call pertaining to the Unaudited Financial Results for the quarter and half year ended September 30, 2023

Dear Sir,

This is in continuation to our earlier letter dated November 05, 2023, regarding audio/video recording of the Earnings Conference Call held on November 04, 2023 at 05:00 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, 2023.

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

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

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

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

Encl: As above

"Delhivery Limited Q2 FY24 Earnings Conference Call"

November 4, 2023

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

MR. SANDEEP BARASIA, ED & CHIEF BUSINESS OFFICER

MR. AMIT AGARWAL, CHIEF FINANCIAL OFFICER

MR. VIVEK PABARI, HEAD, INVESTOR RELATIONS

Moderator: MS. KAVYA SHETTY, HEAD, CORPORATE DEVELOPMENT

OPERATOR:

All right. Good afternoon. The meeting has started. All the participants coming in, thank you.

KAVYA SHETTY:

Good day, everyone. Welcome to the Q2 FY24 earnings conference call of Delhivery Limited. I'm Kavya Shetty, head of Corporate Development at Delhivery and the host of today's call. 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.

A disclaimer to this effect has been included in the earnings presentation shared with you earlier. Kindly note this call is meant for investors and analysts only. If there are any representatives of the media, you're requested to drop off this call immediately. This call will be recorded, and the recording will be made available on the investor relations page on our website.

To discuss the results, I'm pleased to welcome Mr. Sahil Barua, the MD and Chief Executive Officer. Mr. Sandeep Barasia, ED and Chief Business Officer. Mr. Amit Agarwal, Chief Financial Officer, and Mr. Vivek Pabari, Head of Investor Relations. As a reminder, all participants lines will be on listen-only mode.

And participants can use the Raise Hand feature to ask any questions post the opening remarks. Please indicate your name and organization as you ask your questions. I now invite Mr. Sahil Barua to take us through the key highlights of the quarter, post which we'll open up the floor for Q&A. Over to you, Sahil.

SAHIL BARUA:

Thank you, Kavya. Good evening to all of you and welcome to our quarter 2 earnings call. Thank you all for joining on a Saturday evening. As always, I'll begin with a short 15-minute overview of performance through Q2 and a preview of how Q3 has begun to shape up, after which we'll be happy to take questions. Yeah, Apar, if you can start presenting, please. Great.

So the broad summary for quarter 2 is we've had a strong quarter 2 and a strong first half of this financial year, which sets us up very well for H2. As many of you are aware, we make our investments in capacity and expansion during the first half of the financial year and geared up for the festive season period, which has begun this year in quarter 3. And we're beginning to reap the benefits of that as we speak.

In terms of a broad summary of how the quarter has gone, in quarter 2 fiscal '24, we've reported Rs. 1,942 crores in revenue from services, which is broadly flat compared to the previous quarter. Year on year, we've grown revenues by about 8.1%.

In terms of EBITDA margins, our path to profitability has continued. We are almost at the breakeven point with an adjusted EBITDA margin of negative 0.6% for quarter 2 fiscal '24, which is improved compared to quarter 1.

In terms of volumes, our market share in both the express and the PTL businesses has remained robust. We delivered 181 million packages in our express parcel business in quarter 2 financial '24. And we continued to see growth in our part truckload business, having delivered 348,000 metric tons of PTL freight in Q2 FY24.

We continue to invest in network expansion and capacity. The network now covers 18,655 PIN codes across India, as defined by the India post. And we've expanded our automated sortation and hub capacity, as you can see, to 6.65 million parcels per day, which stood at about 5.4 million parcels per day at the end of fiscal '23.

The biggest improvement, as I've alluded to in the past, has been in the PTL business, where we continue to improve revenue quality alongside improving margins. We've seen a very significant reduction in net working capital days, now at 28 days versus 38 days at the end of financial '23, which is significantly ahead of the guidance we'd originally provided. And cash and cash equivalents stand at Rs. 5,534 crores.

So, in summary, a strong robust start to the first half of the year. We've continued to invest in capacity, which sets us up well for the second half and growth through the festive season– significant improvement in revenue quality and working capital while remaining extremely well capitalized.

In terms of key operating metrics, as you can see PIN code reach has expanded from 17,280 PIN codes in quarter 2 of last year to 18,655 PIN codes as of quarter 2 this year. We continue to service the world through our international partnerships with FedEx and Aramex.

Our total number of active customers has continued to increase as our PTL business and our integration with SpotOn has stabilized completely. We've grown from 22,660 customers in quarter 2 of last year to over 30,000 customers as of quarter 2 in fiscal '24, with this momentum continuing at the start of this quarter as well. So we've added nearly 8,000 customers over the last year and nearly 4,000 customers in quarter 2 alone.

Infrastructure has continued to grow. We were consolidating facilities during our integration phase with SpotOn. As of quarter 2 in this year-- of this year, we've begun to expand capacity in key locations again– total addition of 1 million square feet of infrastructure under management, with key facilities in locations such as Chennai, Hyderabad, and Noida going live in this quarter.

We've expanded the total number of gateways from 101 to 108 as of quarter 2, an increase in automated sortation centers and capacity from 24 to 30, and increase in freight service centers in anticipation of higher PTL volumes from 128 to 140. We

continue to convert more of our partner constellation centers on the delivery operations side to in-house operations, reflected in the increase in total delivery centers from nearly 3,200 to about 3,400, while partner centers have dropped from 1,040 to about 986.

Overall, team size has remained broadly stable. We continue to be about 63,000 people across the country and 35,000 form partner agents, with a fleet size of about 12,400 trucks across the country.

In terms of highlights for the quarter, we've had a strong start to Q3, as I pointed out. We did 181 million packages in Q2 in the express business and 348,000 tons of freight. Q3 has begun well with the festive season sales. We expect October express parcel volumes to be in excess of 70 million packages, with a higher proportion of heavy products, and PTL volumes to stand at 120,000 tons despite the festive season. And hopefully this sets us up well for the rest of Q3 and beyond.

In terms of key focus areas, one of the key focus areas for us in the first half of the financial year was improving revenue quality, growing margins and yields, and improving our working capital position. We've made significant improvements in net working capital days, as I'd mentioned, with a reduction of 12 days in receivable days and an overall reduction of 10 days in net working capital from 38 to 28 days.

We continue to focus on improving customer contracts in PTL, a process that we've begun during quarter 3 of last year, post the operational integration with SpotOn. This quarter, you will see this result in higher realizations per kg in the PTL business. And we continue to build infrastructure in line with our long-term strategy of investing in key locations and building capacity for both the express and the PTL business. As you can see, we've expanded gateways, automated sort centers, service centers, and delivery centers, as I've spoken about earlier.

In our third key business, which is supply chain services, we've seen improved profitability in this quarter and expect to see improved profitability in the quarter going forward as well, with renewal of commercial contracts with the key customer and a change in pricing and also multiple wins in quarter 2 from existing and new clients, including a leading auto player, a leading home furnishings brand, and a cosmetics brand. So, in summary, all businesses have demonstrated improvement in core metrics, setting us up well for the second half.

In terms of financial performance, revenue from services, as I'd mentioned, has grown 8% a year, from Rs. 1,796 crores last year in Q2 to Rs. 1,942 crores as of Q2 of this year. Do bear in mind that last year the festive season coincided with Q2, whereas this year the festive season is in Q3.

Express continues to be the largest driver of our revenues, at 62% of the total. We've grown from Rs. 1,125 crores of revenue in Q2 last year to Rs. 1,210 crores of revenue as of this year, year on year growth of 8%. And growth in volumes has

been 12% year on year, from 161 million packages in Q2 last year to 181 million packages in express this year.

In PTL, we've grown revenues by 28% compared to the same quarter last year, from Rs. 293 crores to Rs. 373 crores as of Q2 FY24 and a 7% growth quarter on quarter from Rs. 347 crores to Rs. 373 crores. Freight tonnage has grown 22% between Q2 last year and Q2 this year and 1% versus the last quarter. Growth in revenue has outstripped growth in tonnage, reflective of the improving yields in the PTL business.

Our other businesses also have continued to grow. The truckload business has grown 46% year on year, from Rs. 103 crores of revenue in Q2 of last year and Rs. 131 crores in the previous quarter to Rs. 150 crores as of quarter 2 fiscal '24, so 15% over the last quarter.

Supply chain services has seen a de-growth quarter on quarter from Q1 to Q2, this is in line with seasonal variations in the underlying businesses of our key customers. We expect other key customers to be starting operations in Q3 and Q4 and expect significant growth in this business going forward.

In the cross-border services business line, we continue to see growth in volumes, but yields continue to flatten both in air express and in ocean express. And revenues have remained largely flat at the Rs. 41 crore mark.

In terms of adjusted EBITDA, as mentioned, typically we make our investments in quarter 1 and quarter 2 and see improvements-- significant improvements in EBITDA in quarter 3 and quarter 4, as evidenced by fiscal '22 and fiscal '23. As of quarter 1 fiscal '24, we stood at negative 1.3% in terms of adjusted EBITDA. As of quarter 2 of fiscal this year, we are almost at the breakeven point at negative 0.6%, so an adjusted EBITDA loss of Rs. 13 crores.

This slide lays out the total breakup of adjusted EBITDA. Revenue from customers, as I discussed in quarter 2 fiscal '24, stood at Rs. 1,942 crores. Service EBITDA margin has expanded from quarter 1 to quarter 2 by 0.2%, from 10.2% to Rs. 196 crores, to 10.4% or Rs. 201 crores.

Corporate overheads have declined on an absolute basis between quarter 1 and quarter 2 and stand nearly at the same levels that they were at the same time last year, at Rs. 214 crores. As a percentage of revenue, corporate overheads have dropped from 12.1% as of Q1 fiscal '23, or 11.7% in the same quarter last year, to 11% as of quarter 2. We mentioned that we do not anticipate any expansion in corporate overheads in this financial year, something that the numbers reflect. And overall, adjusted EBITDA, therefore, has improved from negative 1.3% or negative Rs. 25 crores to negative 0.6% or negative Rs. 13 crores.

In terms of the adjusted EBITDA bridge, our incremental revenue in the transportation business, which is the express and the PTL businesses combined, stood at Rs. 35 crores. Incremental gross profit in the transportation business stood

at Rs. 18 crores, or approximately at the 50% incremental GP mark that we've spoken about before.

We made planned investments in the last mile in terms of expansion of delivery center capacity from 3,180-odd centers to 3,400, which has increased DC costs by about Rs. 4 crores. Even adjusting for those Rs. 4 crores, incremental GP stood at close to about 40% in quarter 2.

We also had a one-time impact in terms of a change in our unclaimed goods liquidation process, which has cost us Rs. 7 crores in this quarter. This is not a cost that we expect to see going forward in quarter 3 and quarter 4 and will be reversed.

In terms of overall increase in transport gross profit, therefore, it stood at Rs. 7 crores. Transportation fixed costs have expanded as we've expanded hub and gateway capacity at key locations, specifically Chennai, Hyderabad, and Noida, with a total cost of Rs. 10 crores, leading to a total decrease in transport service EBITDA of Rs. 3 crores.

However, the non-transport businesses, which is the supply chain services business, the FTL business, and the cross-border business, have incremental service EBITDA of Rs. 8 crores in quarter 2, both as a combination of higher productivity and process improvements in the supply chain services business and renegotiation of commercial terms with key clients, which we expect to continue in Q3. Corporate costs have overall declined compared to previous quarter by Rs. 7 crores, leading to a total change in adjusted EBITDA from negative Rs. 25 crores to negative Rs. 13 crores, or an improvement of Rs. 12 crores in Q2.

In terms of key cost drivers, nothing much has changed very significantly between quarter 1 and quarter 2, despite increasing our overall capacity. As you can see freight handling and servicing costs stood constant at about 74.3% of revenues in Q2. Line haul expenses as a percentage of revenue have improved from 33.6% to 32.5% in this period. Most of the other costs have remained largely range bound.

In terms of the adjusted EBITDA bridge in the third column, as you can see, total revenue from customers stood at Rs. 1,942 crores. Freight handling and servicing costs stood at Rs. 1,442 crores, broadly flat compared to the previous quarter and broadly flat compared to quarter 2 of fiscal '23. Employee benefit expenses have come in at Rs. 367 crores versus Rs. 353 crores in Q1 FY24.

And other expenses have remained broadly flat at Rs. 149 crores, leading to a reported EBITDA of negative Rs. 16 crores. Adding back share-based payment expenses of Rs. 68 crores and a reduction in actual lease rents paid, which is an Ind AS adjustment, leads to the adjusted EBITDA for this quarter at negative 13 crores versus negative Rs. 25 crores previous quarter.

And this is just a quick snapshot of working capital position. As you can see, we've been focused on this for quite some time and there's a linear downward trend in overall working capital days. The big change from March ’23 to September '23 has

been a 12-day reduction in receivables from 77 days to 65 days, which is a reduction of 12 days and a reduction of two days in payables from 39 days to 37 days, leading to an overall reduction in net working capital days from 38 to 28.

So that's it. That's a quick summary of quarter 2 overall. Just re-summarizing, it's been a strong start to H1 of this financial year. We've held share in our key business segments, which is Express and PTL. Despite expanding capacity, margins have remained stable or marginally improved compared to the previous quarter.

We've seen a robust start to quarter 3 in terms of festive season volumes and in our PTL business, and continue to improve yield in our PTL business, and continue to improve revenue quality as reflected in the improvement in working capital. So we look ahead with optimism at the rest of the financial year. With that I'll pause and we're happy to take questions. Over to you, Kavya.

KAVYA SHETTY:

Thank you, Sahil. Just a reminder to the participants, if you have any questions, please raise your hand and the operator will take them up. Thank you. The first question is from the line of Krupashankar. Krupashankar, please go ahead

KRUPASHANKAR:

Yeah. Good evening and thank you for the opportunity. My first question will be on the infrastructure expansion, which you had mentioned. Sahil, I just wanted to check with the pace at which you are planning to expand because last year we had seen that the infrastructure had come down when you were rationalizing your space and removing overlapping facilities.

What has changed right now and what are you trying to, what is it that you see with respect to visibility over the next one year because long term I'm really not sure what is your view on long term.

SAHIL BARUA:

Sure. Thanks Krupashankar. So you're right in the last financial year, you would have seen a reduction in overall space under management. I think we reduced infrastructure under management from about the same 18.3 million square feet, 18.4 million square feet to 17.4 million square feet and it's come back to 18.4 million square feet in this quarter.

The main reduction was because of consolidation of Spoton facilities. I've spoken about this in the past. We had an inefficient number of facilities to begin with and had to wait till lock-ins on the Spoton facilities or the delivery facilities expired through this period. So as an example, we had multiple facilities in Chennai, we had multiple facilities in Pune, we had to consolidate facilities in Bombay, and in Delhi as well. And I think that's why we saw that period of reduction.

In this financial year, a lot of the expansion that we had planned therefore has come in. Last year, we continued to operate with a relatively suboptimal network. So we've expanded in key locations. The key locations for us here are one, as I mentioned in the past is Chennai, which is a significant origin location for our part truckload business.

A second key location where we've expanded is in Hyderabad where we've gone from having one hub in Shamshabad to having two hubs now spread across Shamshabad and Medchal, which support both our air express and our surface business because both Andhra and Telangana distribution happens out of our Hyderabad facilities. It's a big destination location for us.

And the third is an increase in capacity in Noida, which is a reflection of growth in both e-commerce and part truckload volumes out of North India. And secondly, Noida also adds as an extremely important risk mitigation point for our Tauru facility or our Tauru mega gateway. So that's why we've been expanding these three key locations.

As I've mentioned, we will continue to expand capacity at critical locations. One of the other factors that we look at Krupashankar is also changing the engineering of our facilities to make them ready to scale up tractor-trailer operations. So a number of our facilities in secondary locations were not designed with tractor-trailer operations in mind three or four years ago.

But as I've spoken about Tractor Trailer operations are key to our linehaul strategy they are key to our integration of our express and our PTL businesses, and so we have to upgrade this infrastructure as we see volumes expand. Chennai is a good example, Hyderabad is a good example of this need. So it enables us to actually reduce linehaul costs over the long term.

Our belief continues to be that India is under-supplied from a logistics standpoint. Market spends are significantly higher than the size of organized players in this space and the shift from unorganized players to organized players will continue. These investments are crucial for us to be able to gain scale. They're crucial for us to be able to reduce the cost of logistics for our customers, whether it is by running more efficient facilities, whether it is by running more efficient linehaul. And we have to keep investing in this to continue to gain size.

KAVYA SHETTY:

Thank you. Krupashankar, do you have any other questions?

KRUPASHANKAR:

Yes, I have one more. I just wanted to check, what would be the impact on profitability in the near term? Because there is a certain gestation period with respect to scale-up of these facilities as well. So do you see that there can be a relative impact on the margins?

SAHIL BARUA:

I'm glad you asked that question Krupashankar because as I've mentioned in the past, quarter 1 and quarter 2 are typically the periods where our new facilities go live. For obvious reasons, we don't want facilities going live in quarter 3 because that coincides with when the peak season for us begins. As you can see margins have improved in quarter 2 versus quarter 1 despite an expansion in overall capacity, which reflects the underlying quality of the business.

And the fact that when we make these facilities live we have the ability to pull loads into these facilities quite quickly. Of course, every individual facility has a gestation period, which typically takes anywhere between two to six months, depending on the specific location that we're in for it to reach an appropriate utilization level, which typically will be around the 55%, 60% mark.

But obviously, as you can see the expansion as a percentage of the total is not that large. It's 1 million square feet on a total of 17.3 million square feet. So we're really talking about a 6% or 7% increase in overall capacity. I think as we get larger the percentage of additions that we make will continue to decline and so there actually won't be that much of an impact overall on margins.

But your question, first of all, despite the expansion we've already seen an improvement in quarter 2 versus quarter 1. We don't have any significant expansions planned in quarter 3 and quarter 4. And so with revenues increasing in this period obviously margins should expand.

KRUPASHANKAR:

Thank you, Sahil.

KAVYA SHETTY:

Thank you. The next question is from the line of Sachin Salgaonkar.

SACHIN SALGAONKAR:

Thanks, Kavya. This is Sachin Salgaonkar from Bank of America. I have three questions. First question. Sahil, just as a follow-up to some of your comments, you did mention about change in pricing and renegotiation with some of your customers.

When we look at the express yield it just moved 1% QoQ. So would be great to understand or get some color what kind of an impact should we see going ahead on the back of this renegotiation. And if you could give a bit more color in terms of what do you mean by change of pricing that would be helpful.

SAHIL BARUA:

Sure. Most of our renegotiation in terms of pricing and commercial terms Sachin has been focused on our part truckload freight business and our supply chain services business, which is on the part truckload business you can see that yields have gone up quite significantly between the last quarter and this one. So we continue to renegotiate this with customers.

As I mentioned in the past, one of the things that we're very focused on is making sure that every account that Delhivery services, meets our target expectations in terms of gross margin and service EBITDA and overall return on capital when you consider via receivable days. So we continue to renegotiate this with customers. Also, obviously, on the basis of which sector they're in, the lanes they're transacting on and so on.

And in the supply chain services space, one of our key contracts was up for renegotiation, which forms a moderately significant portion of our total supply chain services business. I think we've concluded that satisfactorily and we'll start seeing the impact of that in this quarter.

On the express business, you're right. Yields have gone up, but we have not made any significant pricing changes. As I've mentioned in the past, we are not in the yield management business in the express vertical at all. We are the most efficient player in the market by a stretch. We are aware of this. Our numbers show this.

We will continue to make sure that our customers get the benefit of our scale, get the benefit of our unique network model, and we don't see a need for us to increase pricing at this point in time. We have the ability to absorb cost inflation for a period of time into the foreseeable future. So what you're seeing over here is a change in mix.

When our yield has declined I pointed out it's a change in mix. When our yield has gone up, it's a change in mix. This could be a change in distance. It could be a change in the weight of the products. It could be a change in the total clients' volumes that form the 181 million but there are no significant pricing changes.

SACHIN SALGAONKAR:

Thanks, Sahil. Second question would be great to get some color in terms of the festive season where it's a bit more stronger this year as compared to in the past. And anything in terms of mix change we are seeing between e-commerce, B2C vertical, social commerce, that would be helpful.

SAHIL BARUA:

Sure. I think the festive season has gone well as far as we're concerned. And I think some of these numbers will become clearer as the next two months play out. But from what I understand, peak to peak most of the industry players suggest a peak-to-peak growth of about 15% or so on GMV, which is in line with I think what we would anticipate. Our peak-to-peak growth has obviously been larger.

Last year as we mentioned, we had specific impact which came in from our Tauru facility during the peak period. And so our peak numbers last year to some extent were depressed. This year we've seen absolutely no change in service levels. In fact, network service levels I would argue have remained close to best in class through this entire period. And so that's reflected in our strong performance in October.

Obviously, I think the big platforms have seen fairly robust demand through this October sale period. We've also seen a secular uplift for D2C brands also in general I think because when category spending increases from the market leaders the sort of a high tide that floats the boats even for D2C companies which may not necessarily be themselves spending on category in this period. So it's been a secular uplift in e-commerce and I think that reflects very well for the industry.

SACHIN SALGAONKAR:

Thanks, Sahil. And my last question is on the overall business growth. In Q1 it was 11%, in Q2 this is around 8%. And I do understand barring a few businesses here, the question is, given the fact that you guys have three to four businesses and given that there is this fluctuation what we see, on a consol basis the growth comes in the range of 8% to 11%.

So is this something we could expect going forward, or there is something which will accelerate the growth to a sustained higher double-digit? So any thoughts on that?

SAHIL BARUA:

Yeah. I think I mentioned this in the past, Sachin. And this is why we're also learning the ropes in terms of forward guidance. The fact is that in our business retooling and restructuring the business is something that takes time. We absorbed Spoton last year and it's the largest acquisition that's been made in logistics for a while. And integrating two networks has obviously been more complex than even we originally thought as our own numbers from the last quarter clearly show.

I don't think that the current rate of growth that we have on revenue is reflective of the long-term growth potential of the company because as I've discussed, India remains a deeply underserved market. From our standpoint, the way we've always looked at it is that you first have to get all of the structural elements of the business right before you start pushing for growth.

And when you look at it quarter on quarter, when you look at it over the last one and a half, two years that we've been public, I think that's exactly what we've been doing. We began by absorbing Spoton. After absorbing Spoton, we began by making sure that the operational integration after our initial challenges was completed satisfactorily, making sure service levels came back to the levels that were our target right from the beginning.

The second was to go back and make sure that we regained all of the customers and confidence of the customers that we serve, which is reflected in the fact that we've gained 8,000 customers in the last year and 4,000 in the last quarter alone. The third was then making sure that the underlying margin structure of the business remains unaffected.

As you can see and as I've discussed, our quarter 1 of this year has been significantly better than quarter 1 of last year and it's the same thing for quarter 2. So the underlying unit economics of the business continue to remain robust.

And the last piece was making sure that our billing receivables and our collections, our revenue realization remains in line with our expectations and that was the piece we've been working on. It's taken us some time to actually get all of the structural elements of the business together. And despite doing that, I think growing at 8% to 10% in this period, it points to the fact that we have a much larger opportunity once these things come together.

What we're doing specifically for growth? On the PTL business, as an example, we've significantly expanded our sales force, which is now spread across the entire country. We're now confident we have the infrastructure, the operational service levels, the underlying margin structure, and the controls to grow at a significantly faster rate.

And on the supply chain services business also as we've expanded our overall part truckload capabilities and we continue to build our full truckload capabilities. I think we have a much stronger capability to go out and acquire more customers, which is reflected in the pipeline and the new customers that we've started up.

So I don't think 8% to 11% is the normative growth for the business. I think we will grow significantly faster. We were waiting to actually get all of the other metrics in line and I think we're at that point.

SACHIN SALGAONKAR:

Thanks for the color, Sahil, and all the best.

KAVYA SHETTY:

Thank you, Sachin. The next question is from Gaurav Rateria.

GAURAV RATERIA:

Hi. I hope I'm audible.

SAHIL BARUA:

Abundantly so.

GAURAV RATERIA:

Thanks for taking my question. So firstly, Sahil, I just want to get a sense of sustainable volume growth for the express parcel market as a whole. You talked about 18%, 20% and you're pretty much on track to do that this year based on the performance in H1 and the commentary about October. But let's say we look beyond FY24, how should one think about sustainable volume growth in this market, and what could be the upside or downside factors to think about?

SAHIL BARUA:

I've spoken about this before. I think as I look at this over the middle term our expectation is that e-commerce volume growth, which drives parcel volume growth will remain in that 15% to 20% range. This year has turned out to be more or less as we expected. Over the long term, it's very clear that e-commerce will become a larger and larger part of consumption.

We have seen that in this festive season. I think there were questions about growth, but it does appear that the appetite from customers to spend online is there. All platforms have seen growth. As I mentioned, 15% GMV growth, volume growth has probably been in the 11% to 12% range in this period. So at least all indicators seem to suggest that this 15% to 20% growth rate is the sustainable growth rate and that's what we see.

I think the heartening fact is that we continue to see a very large number of new participants in the e-commerce space across various different sizes. As an example, I mean, Mamaearth has just gone public. So you see a large number of direct-to-consumer brands growing pretty fast. I think that is one of the drivers for growth going forward.

We're also seeing a growth in other enabling systems in the e-commerce space, which I think will improve the ability for many of these companies to grow. One of them obviously was logistics and our ability to keep costs at a level that it's possible to start and run an e-commerce company. But our value-added services we've seen demand for that also pick up, which enables smaller players to offer services which are relatively on par with the larger marketplaces as well. I think that is also an added factor.

The most interesting thing, though, and the more immediate basis is we've also seen a fairly significant growth in the heavy category after a period of time. And I think continued category growth in consumer durables and electronics, continued category growth in home furnishings, furniture, these categories will also drive both GMV and volume growth going forward.

So in sum, I think nothing fundamentally changes, Gaurav. I think our 15% to 20% outlook remains consistent. And we expect category growth and category expansion to drive this. We expect more D2C players to come into the market, and overall outlook on e-commerce remains positive.

GAURAV RATERIA:

Got it. Second question is around the investments that you talked about made in H1. Is this more specifically for the second half or more for next year? And related question is that if you can share some utilization metrics in the mid-mile sorting side of things with this kind of a capacity upgrade.

SAHIL BARUA:

Sure. Capacity upgrades in Q1, Q2 or in H1 in general are never made just for H2 alone. They are made with the future in mind. As an example, in Chennai, we've doubled the overall space under management after consolidating the previous facilities, including consolidating actually one of our freight service stations into the new hub.

In Medchal, it's a completely new facility that we had to set up for service operations to expand in the Andhra and Telangana region. And obviously, Noida, as I mentioned, is both a response to demand from customers as well as a de risking point for our Tauru mega gateway. So as I'd mentioned, all such upgrades typically at the mid-sized facilities are done with a three to four-year horizon in mind. So these investments are with an eye halfway towards let's call it fiscal '27.

We expect these facilities to last us till fiscal '27. The mega gateways, which are Tauru, Bhiwandi, and Bangalore are obviously expected to last much longer. We expect mega gateways to last us for nearly seven years on average or larger. So these aren't investments for H2, these are investments for the future.

Capacity utilization at a network level obviously hasn't changed that much just because we added this 1 million square feet of real estate as is reflected in the margins, which have actually gone up from quarter 1 to quarter 2. My sense is that overall network capacity utilization has remained stable. As an example, we will operate somewhere between the 60% and 65% mark, which is where we operate.

Of course, individual facilities operate at significantly higher capacities. That said, one thing I do want to point out, which is called out in our press release as well, is we continue to discover ways of juicing more productivity out of our existing facilities.

Our Tauru mega gateway as an example in this festive peak period achieved an overall throughput of, I think, a peak of about 480,000 bags in and out, bag equivalents, which is a freight terminology that we use whereas when the designed capacity for this facility actually was about 420,000.

So obviously, with the improvement in the automation, the improvement in our operational processes, we've been able to actually expand capacity of this facility, which is also why capacity utilization becomes a slightly difficult metric because we find new ways of expanding capacity overall.

GAURAV RATERIA: Got it. Last question. Any sense of your market share in e-commerce parcel market, and any sense on the mix of your revenue from corporates versus SME in the PTL segment? Thank you.

SAHIL BARUA: Yeah. In the PTL segment, overall, I think we've seen growth across all segments, but as a percentage of the total, I think the biggest expansion has come from SME, which is obviously reflected in the sheer number of customers that we've added. In the last quarter we added 4,000 customers between Q1 and Q2.

India ultimately is a large SME market for PTL. And so a core part of our strategy going forward is going to be continuing to increase our penetration of this segment. The other thing, of course, is we now see a larger percentage of our business coming from tier 2, tier 3, and tier 4 cities, both as origins and as destinations across both the PTL and the express business, which is reflective of some of the success of the strategy of expanding the sales force outside of the key metro cities. So that's been the big change on the PTL.

On the express side, as I'd mentioned, market share varies widely through different periods. My sense is looking at our latest numbers our market share remains stable in that 21%, 22% kind of range of overall parcels shipped.

GAURAV RATERIA:

Thank you. All the best.

SAHIL BARUA:

Thank you.

KAVYA SHETTY:

Thank you, Gaurav. May I request Sachin Dixit to ask the next question?

SACHIN DIXIT:

Yeah. Yes, hello. This is Sachin from JM Financial. I had a question on supply chain services. I want to understand what's happening there. Interesting you guys talk about adding a bunch of customers in this business and I know you highlighted that the revenue will come probably in Q3. But still, if I compare the YoY from last year, both the quarters we have done lower numbers this year.

So what's happening there? How should we think of this business? So it's slightly more trickier than your express parcel and PTL.

SAHIL BARUA:

You're right, Sachin. It is trickier than both the express parcel and the PTL businesses. And as I've mentioned before, this is a business where just given the

sheer size of every contract that we sign, it's a lot more volatile than express and PTL which are in some senses more dispersed portfolios of customers.

One of the reasons why we've seen a reduction, of course, is again in this business, we've jettisoned some customer accounts which we felt were unprofitable or didn't meet our return on capital targets and expectations. With one of our customers in the quick commerce space, we also have a commercial renegotiation where essentially we've moved from a CapEx model to an OpEx model which has optically reduced our revenues as well between quarter 1 of this year and quarter 2 of this year and compared to last year.

And there's obviously an inherent seasonality in the customers that we sign. I think we're pretty confident-- the first thing we're pretty confident, first of all, that a number of the new clients that we've been onboarding, revenue from them will lead to an uplift in quarter 3, quarter 4, and beyond. We have an increase in overall accounts. We have an increase in overall fulfillment centers starting up.

There's a period of time that the FCs take to start up as I've spoken about. We had Havells, which was one big customer that's taken us about three months to really start up and that should start reflecting and other similar accounts that are in the pipeline. So it takes some time. I think this is a business where it's best not to look at it purely from a quarter-on-quarter basis but really to look at it over the long arc of time.

The important metric here that we were tracking internally and that I think is a very positive indicator is the Rs. 8 crores of incremental service EBITDA that has come in quarter 2 versus quarter 1 and the commercial renegotiation with existing customers where we are renewing the contract. So it's both a sign of confidence of the customer to renew the contract with us again for the medium term and an improved commercial terms for us.

SACHIN DIXIT:

So this remains a typical unorganized-to-organized story, right? So the steady-state growth should be ideally somewhere in the 15% to 25% range, right?

SAHIL BARUA:

So it's a little more complicated than that Sachin because it's not exactly just an unorganized-to-organized move. See, the reality is that Indian enterprises are really shifting from a mindset of running logistics in a subscale fashion to thinking about supply chains as a source of strategic advantage. So this isn't as simple as they had a bunch of mofussil operators who they are getting rid of and consolidating into a Delhivery or a DHL, whatever it is.

Very often these are also poorly run in-house operations. Companies have run in-house warehouses poorly. I mean, you just need to visit some of these to see. And

the fact of the matter is that it takes time for them to re-architect their entire supply chains.

One thing I do want to point out is that we are not in the business of contract logistics where it is significantly easier to grow at a predictable 5%, 6%, 8%, 10% growth annually. We don't do contract logistics at all.

When we take on an engagement, this involves a fundamental redesign of the customer's operations from what warehouses to run, how many to run, what kind of stocking schemes to use, where you should store inventory, how that inventory should be used to service various channels and various forms of demand, what routes to take, what trucking formats to use, and so on.

So it's a consultative sale rather than going to somebody and saying, OK, we'll take over your warehouse, we'll give you the manpower and charge a 4% management margin. That's not the business that we're in. And so I think this will remain somewhat relatively unpredictable in the short term and the medium term.

The minimum size as I've mentioned in the past at which this business starts to gain what looks like its long-term structure will be at the Rs. 2,000- Rs. 2,500 crores of revenue. So we're still some distance away from that.

KAVYA SHETTY:

Thank you, Sachin. The next question is from the line of Hitesh Goyal.

HITESH GOYAL:

Thanks. Thanks for taking my questions. I wanted to touch base on slide 11 in which you have shown the transport gross profit. So first, can you explain this Rs. 4 crores and Rs. 7 crores number, is it one time? I could not follow that. And also what would be the incremental gross profit margin then going forward after the increased capacities? If you can touch base on that.

SAHIL BARUA:

Sure. The Rs. 4 crore that you see is an expansion in our overall delivery center network. If we can go to one of the early slides, that table. I think slide 4.

Yeah. If you look at this one, what you can see is express delivery centers have expanded from 3,170 to 3,412. This is both a shift in strategy as we move from partner centers, which you can see have reduced from 1,039 to 986 where we're replacing these with in-house delivery centers. And also an expansion in the DC network in response to higher volumes and a more optimally placed network.

So the additional cost of Rs. 4 crores that you see on DC capacity expansion is because of this expansion of approximately 250 centers. Yes, in a way is it one time in the sense it's one time in response to the volumes that we have. But expanding

DCs in general is a normal feature of business. We made a larger than usual expansion in quarter 2 of this year.

Even if you consider it as part of ongoing business expenses, the incremental gross profit is not Rs. 18 crores but Rs. 14 crores. And so incremental GP remains at that 40% mark. In general, our incremental GPs we expect to remain in that 35% to 50% mark. So we're well within that range.

In terms of the short-term measures, those Rs. 7 crores very specifically, this is a change in our liquidation process. So as you're aware logistics companies may generate unclaimed goods through our network. So, for example, goods that reach the last mile but are damaged and not accepted by consignees or, for example, the ones where due to improper packaging the ability to trace the shipment has been compromised. These goods typically go to a central liquidation center.

In quarter 2 of this year, we made a change to how we would liquidate. Earlier we had a relatively manual process of liquidation. We're now moving this to a digital platform where we will essentially liquidate these through a competitive bidding process.

And so we didn't recognize any liquidation proceeds from these goods in quarter 2. We expect that to happen in quarter 3 and quarter 4. And also as we have better tracking and we're moving these through our fulfillment centers, there's a marginal increase in the cost of rent and cost of manpower to process these liquidated goods.

So like I mentioned, this is an unusual cost. We don't expect this to continue in quarter 3, quarter 4, or beyond because we will now start liquidating this via our digital platform.

HITESH GOYAL:

Great. Thank you, Sahil. Thank you.

KAVYA SHETTY:

Thank you, Hitesh. May I request Manjeet Buaria to ask the next question?

MANJEET BUARIA:

Yeah. Thanks, Sahil. Sahil, first I wanted to understand if you could share some thoughts on how would the two dedicated freight corridors coming up impact their competitive edge as to being the lowest-cost operator in the industry.

SAHIL BARUA:

Sure, Manjeet. Even today we drive on the same highways as everybody else. So it's not like just because there's a new highway or a new kind of highway our cost advantages are compromised. Even today, as an example, delivery trucks and

everybody else's trucks travel on National Highways 8 and 77 and all of the big highways.

Manjeet BUARIA:

Sahil, I meant the railway-dedicated freight corridors.

SAHIL BARUA:

Oh, you mean the railway dedicated freight corridors?

MANJEET BUARIA:

It looks to have a much lower cost of transportation. So I wanted to understand how does that impact us in the long run.

SAHIL BARUA:

Actually, we've mentioned this in the past. The dedicated freight corridor by rail makes a lot of sense for bulk cargo. And I suspect that is where you're going to see the first use case. I don't think that over short and mid-distances the cost differential is very significant. That's number one.

Number two, actually, in our case, if we were to compare the costs that we are delivering at via our tractor-trailer operations and the pilots that we have planned in terms of multiple tractors on a trailer and the electrification of the fleet, I think the cost differential will become larger. In fact, our surface network is a highly efficient mode of transportation. And so we don't expect the dedicated rail freight corridor to have any impact overall on demand for our surface network.

So there may be some impact for some bulk cargo categories, but we are not significant players in those categories. And so we don't expect anything to materially change for us.

MANJEET BUARIA:

OK. My other question Sahil was, would it be possible to share what your peak service EBITDA margin was before we got listed and when we were running only the express parcel segment before we really scaled up the PTL business?

SAHIL BARUA:

The reason why it wouldn't make sense for us to share that is because the extent of sharing in the network between express and the part truckload businesses has changed significantly. That's number one. Number two, the overall movement across our network via tractor-trailer has changed significantly. And so the reality is that we won't be comparing apples to apples in this period.

That said, I think in an express-only world, our expectation as we mentioned in the past and today with an express and LTL combined world, we expect that normative service EBITDAs despite the falling yields, which we are doing ourselves to make sure that we continue to pass benefits to our customers, we expect will stabilize in the 18% to 20% range.

MANJEET BUARIA:

OK. Sahil, one last question. I appreciate this and you have explained in the past about incremental margins. But where I'm confused is we are a fairly sizable player already in terms of scale and I appreciate scale gets you better operating leverage and all of that. But despite being the largest player today, we are nowhere close to that 18-20. So I'm just confused as to what absolute level of revenue do you really think it happens. And if you just help me understand that. Thank you. That's my last question.

SAHIL BARUA:

Sure. I've mentioned this in the past as well. I'm sort of at a loss to provide exact guidance for reasons that we've spoken of before. We do not provide segmental margins at this point in time. I think we see no reason to provide them at this point in time. At an appropriate time in the future, we will break this up.

Suffice to say, both in our express and in our PTL businesses we're quite satisfied with the service EBITDA margins that we see. We have a corporate wage structure and overall corporate costs which are reflective of the breadth of businesses that we perform, which includes supply chain services, the truckload business, and the cross-border business. And our investments in these businesses are driven by the fact that our customers increasingly want their logistics partners to provide them a full bouquet of services.

And so I think we've remained in investment mode through this period. We have absolutely no doubt the underlying unit economics of our express and our PTL businesses are in most cases actually trending towards our expected margins over the long term. So I think you can model this out quite easily. If you model various growth rates you should be able to model using our incremental margins at what point we reach target margins in both businesses.

But suffice to say profitability in either of these businesses, there's nothing that's going to happen in the future that is unpredictable. It's exactly the same trend that we followed for the last six quarters.

MANJEET BUARIA:

OK. I'll come back in the queue. Thank you.

KAVYA SHETTY:

Thank you, Manjeet. The next question is from the line of Aditya Bhartia.

ADITYA BHARTIA:

Hi. Good evening. My first question is on operating leverage that is implicit in the business. If we look at this quarter, we have had around Rs. 10 crore of incremental fixed costs for transportation business for mid-mile operations. And that to me was a bit surprising because I thought that we have a surplus capacity in the mid-mile operations and still our volumes are significantly lower than, let's say, what we had achieved in fourth quarter FY22, although Spoton started emerging. So how should we think about it?

SAHIL BARUA:

I've explained this multiple times that ultimately the question is not whether capacity at the overall network is at a particular point in time. Just because we have 17 million square feet of real estate across the rest of the country does not mean that we will not build a facility in Chennai when we need to. So the fact of the matter is that we have to expand capacity in response to volume.

In Chennai, we see an opportunity for us to gain significant scale given that there's significant manufacturing output and significant PTL demand ex Chennai. And so we've had to build a facility in Chennai. In Hyderabad, as an example, the Medchal facility is important for us to service Andhra and Telangana as destination markets, and Shamshabad which is where we ran the previous hub is an air location.

We're seeing an increased demand for LTL delivery into the region and so this was a natural hub to create. And Noida, as I've mentioned, is both in response to an increase in PTL volumes as well as to de-risk the Tauru gateway, which we've learned from last year was affected by a weather event and so it allows us another option.

So our expansion in capacity will continue. That's one. The second is you have to place this in context of the overall economy as well. Unless Indian logistics demand is somehow going to be extinguished over the next year, I think any company that's not investing in capacity building is missing out on the long-term opportunity. And what we've been very clear about is that we will continue to invest in the long-term opportunity.

Somebody is going to build a very large logistics company in India. We're in pole position to do it. Building it demands the creation of capacity and we'll continue to do it.

ADITYA BHARTIA:

Sure. Then the incremental gross margins that we speak about of around 40% to 50% that will always be excluding any expansions that we would be undertaking and any fixed cost increases that would be coming on account of those expansions.

SAHIL BARUA:

Certainly. And as the base network gets larger the incremental investments that are required in the network as a percentage of the existing capacity will decline. Seven years ago when we added 1 million square feet on 4 million square feet the expansion was 25%. When we added 1 million square feet on 17 million square feet the expansion is 6%.

ADITYA BHARTIA:

Sure. Understood. And my second question is on EPD volumes. The way we are seeing it, we are already doing roughly, let's say 60-odd million parcels a month. You've spoken about October being somewhere close to 70 million, so a little over 70 million. I would have imagined that the seasonal uplift in volumes would be far sharper.

So is it that we are no longer seeing the kind of growth that we used to and the kind of slowdown that we saw last year is pretty much persisting in express parcel delivery? And is the seasonal increase only limited to 15-odd percent?

SAHIL BARUA:

You're making the mistake between a seasonal week and a seasonal month.

ADITYA BHARTIA:

Hello. Sorry, I can't hear you.

SAHIL BARUA:

Hi. Just reconfirming. Am I audible?

ADITYA BHARTIA: Yeah. Now you are.

SAHIL BARUA:

Yeah, sorry. Aditya, what I was saying is that the increment in volumes that you're seeing the 60 versus 70 plus that we have is on a monthly basis. The peakiness of the increase obviously is much larger when you look at the seasonal sales that the e-commerce companies announce. These don't last through the entire month but are typically anywhere from 5 to 10 days.

So the overall peakiness that we've seen is significantly higher than the overall increase that we're talking about from the 60 million to the 70 million-plus mark. At our peak day as an example in this period, we have dispatched I think a peak of over 5 million packages compared to 3.6 million packages in the previous month, which is an increase of nearly 35% or 40%.

As I've mentioned, I think e-commerce growth, we are pretty clear, the secular growth trend is between the 15% to 20% mark. I think this festive season also reflects that. And we expect that this growth is not likely to be compromised anytime in the near future because it's coming from increasing frequency, new customers coming into the market, and new categories being launched.

ADITYA BHARTIA:

Sure. And given that this time around we are having Diwali in mid-November, how do typically sales pan out between a couple of weeks before Diwali and a month before Diwali? What I'm trying to understand is that will it be fair to assume that October sales would be higher than November or at best be similar to November?

SAHIL BARUA:

So usually, the festive season sales that the e-commerce companies run come in prior to Diwali and that is the peak period. So the peak period is already over in October starting, I think. Once the peak period is over there is some incremental volume that persists through the next month but not very significant. But the peak period obviously sets the benchmark for the next year.

So we typically don't expect the immediate period after the peak period to remain as elevated. And then in December, January, you start seeing the end-of-year and end-of-season sales come in. And there you see growth coming not just from the key platforms but you also see growth coming from direct-to-consumer brands, omnichannel brands that were sort of offline brands with an online presence, and so on. So December, Jan generally are high watermark months compared to November.

ADITYA BHARTIA:

Sure. Understood. That's very clear. Thanks, Sahil.

KAVYA SHETTY:

Thank you, Aditya. The next question is from the line of Mukesh Saraf.

MUKESH SARAF:

Hi. Just one question from my side on the PTL business. Obviously, I mean, when I look at the volumes we are largely flat sequentially while we've seen our yields go up a bit about 5%, 6%. So really the question is largely relating to our run rate that we were at. We're still about 20% below that run rate about a year back. I mean, the question is that why are we focusing on yields here and not focusing on probably getting back the volumes that we were once at?

SAHIL BARUA:

We are, Mukesh. Although, we're not focused on getting the-- sorry. Am I audible?

MUKESH SARAF:

Yeah.

SAHIL BARUA:

Yeah. I am audible? OK, great. Sorry. OK. It's not that we're not focused on getting the volume back. As I've mentioned in the past going hell for leather for volume without first getting all of the backend service levels, without getting all of the other structural elements in place is not something we wanted to do. There is good volume and bad volume. Even in quarter 2, one of the things that we've continued to do is that accounts that we think would not meet our long-term expectations in terms of return on capital. We've jettisoned them and that's reflected in the massive reduction in receivable days as well of 12 days and the reduction in net working capital. So we continue to be pretty careful about what kind of business we bring in.

We have seen in some cases that some of our competitors in some locations are happy to take on business to grow volumes but at yields and at margins that we are unable to see how they make sense. And this is despite us having a lower mid-mile cost. This is not the volume that we want to support at this point. I think our value proposition is we are the largest network in the country. We are extremely high speed, extremely reliable. And we are pretty confident in our cost structure and so we don't necessarily have to take that on. I think there's close to about 10,000 tons of freight, for example, that we have jettisoned in the last quarter because it didn't meet our return expectations. So the idea really is to remain disciplined in terms of how we go out and grow. That was one.

The second is that we needed to put our sales force on the ground to expand our sales force in tier 2, tier 3, tier 4 cities, which we wanted to do only after we had gotten all of the rest of the structural elements in place. And now that the peak is behind us, we have tested our operational service levels compared to last year, they have remained absolutely stable and customers are happy, I think we will go out and attack all of these markets in one go.

The other thing, of course, is we look at daily PTL volumes. In fact, our daily PTL volumes have remained in that 4,600 to 5,000 metric ton range. There have been a couple of circumstances in September which have been unique, which to some extent were un-modelable. As an example, I think volumes were depressed also because of G20, for example. And we took a view of not even shipping into Delhi during that period to make sure service levels remained robust and we didn't have backlogs.

So these are events also. The holiday, G20, adhik-maas, these things have affected volumes to some extent overall and we've taken a conservative view this year. But daily volumes are strong.

Overall, customer mix has improved. As I've mentioned, we've expanded the penetration of SMEs. We have 4,000 new customers that have come on board in Q2. They will scale up in quarter 3 and quarter 4.

The sales force is going live. Our receivables control has improved massively over the last year and a half. So it's not that we're compromising growth or anything of the sort. It's just a question of getting the right pieces in place.

MUKESH SARAF:

I'm sure of that. So is it fair to say that 5,000 on an average that we achieved in 4Q of '22, 5,000 tons, that's not like a benchmark that we should look at because like you said that might include some of the low-yielding business and receivables and all of those. So in that 5,000 tons, do you think we have achieved back to that level from the business that we wanted?

SAHIL BARUA: Yes.

MUKESH SARAF:

OK. We've already got that according to you. OK. And secondly, again, in continuation with this, is there a switching cost for the customer at all in the PTL business who is using, say another organized player? I'm not looking at the unorganized guys. But if somebody is already using an organized player, is there a switching cost if you want to get that business?

SAHIL BARUA:

No. There is no switching from the existing players. That said, and I would say this. So, I mean, if you do your market research, we like to believe that there's a pretty significant switching cost when you switch out of Delhivery.

MUKESH SARAF:

All right. Understood that. Thanks a lot, Sahil.

KAVYA SHETTY:

Thank you, Mukesh. Since we are at the top of the hour, we'll take one last question from the line of Shrinidhi Karlekar. Shrinidhi?

SHRINIDHI KARLEKAR:

Can you guys hear me?

KAVYA SHETTY:

Yes.

SHRINIDHI KARLEKAR:

Yeah. Hi. Thank you for the opportunity. Just, Sahil, I wanted to have your perspective on this. Are you seeing that e-commerce business and the hyperlocal quick commerce business there's increasing overlap? Maybe at this moment it is very small, restricted to probably personal care categories, but do you think it is increasing?

SAHIL BARUA:

No.

SHRINIDHI KARLEKAR:

OK. So it's not a challenge really, yeah?

SAHIL BARUA:

No. It's not.

SHRINIDHI KARLEKAR:

And second one on the D2C business that comes, would you say that structurally it is a higher yielding business compared to big two e-commerce companies?

SAHIL BARUA:

Somewhat. But I do want to be clear about one thing. We've said this in the past as well. The traditional logistics wisdom and the traditional logistics strategy of players around the world has always been to make sure that they essentially give bigger customers, you give the discount to Amazon and charge an arm and a leg to everybody else is how people have generally approached this market. That's not what we believe is appropriate for the customer.

And when we have the opportunity to build a network which is the most efficient and the most efficient for everyone. And so in some senses, our structural pricing to D2C is not different from the structural pricing that we provide to a marketplace or to a larger customers of any size. Our aim is to be the most efficient partner to everyone and follow the same structural margin expectations, the same structural return expectations.

Yes, by virtue of the kinds of products that people ship, B2C yields in some cases are larger, but otherwise, a T-shirt shipped by company X versus company Y, a T-shirt is a T-shirt is a T-shirt.

SHRINIDHI KARLEKAR:

But I was wondering more from the origination point and the destination points where one would imagine smaller D2C companies would have a concentrated supply point and distributed destination points compared to larger companies using e-commerce.

SAHIL BARUA:

Not necessarily. Not necessarily. But you're right. If your broader question is, does the origin of a good and the destination of the good affect the pricing at which logistics happens? The answer is yes. But that's not specific to D2C that's specific to any kind of good. So if it's a marketplace shipping out of Rajkot or a D2C company shipping out of Rajkot or Surat and shipping to, let's say, Ludhiana or somewhere else, the cost is broadly the same.

SRINIDHI KARLEKAR:

All right. OK, Sahil, thank you for answering my questions, and all the very best.

SAHIL BARUA:

Thank you.

KAVYA SHETTY:

Thank you all, we are at the end of the call now. I'd request Sahil for his closing remarks.

SAHIL BARUA:

Thank you, Kavya. And thank you all for joining the call on a Saturday evening. As I've mentioned, I think we're very satisfied with our H1 results. We've seen 8% revenue growth over the same time last year. We continue to maintain a strong position in our core businesses, which is the express and the part truckload business.

Overall, financial and operational indicators for both businesses continue to turn North. We've had a strong start to quarter 3, with over 70 million packages expected in express, 120,000 tons of PTL freight, and our supply chain services business profitability and client pipeline continues to be healthy. So we're quite optimistic about the rest of the year.

I look forward to seeing all of you at our next earnings call. Thank you, Kavya, for hosting this.

KAVYA SHETTY:

Thank you, Sahil. Thank you all for joining us. You may now disconnect your lines.