Date: May 24, 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 Audited Financial Results for the quarter and financial year ended March 31, 2024

Dear Sir,

This is in continuation to our earlier letter dated May 17, 2024, regarding audio/video recording of the Earnings Conference Call held on May 17, 2024, at 06:00 P.M. (IST) on the performance of the audited Standalone and Consolidated Financial Results of the Company for the quarter and financial year ended March 31, 2024.

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

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

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

MADHULIKA VIPIN RAWAT
Digitally signed by MADHULIKA VIPIN RAWAT
Date: 2024.05.24 15:23:10 +05'30'

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

Encl: As above

"Delhivery Limited Q4 & FY24 Earnings Conference Call"

May 17, 2024

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: MR. BAIJU JOSHI, MACQUARIE CAPITAL

MODERATOR:

Good evening, everyone. Welcome to the Q4 & FY24 Earnings Conference 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 any representatives from the media, they are requested to drop off this call immediately.

To discuss the results, I'm pleased to welcome Mr. Sahil Barua, 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. I thank the management team for providing us the opportunity to host this call. I now invite Mr. Sahil Barua to take us through the key highlights of the quarter, post which we will open up for Q&A. Thank you, and over to you, Mr. Sahil.

SAHIL BARUA:

Thank you, Baiju, and thank you to the Macquarie team for hosting us. To all of you who have joined, thank you for joining on this Friday evening as we go through our results for the quarter and the financial year. As always, I'll begin with a short presentation on our annual and quarterly results and then we'll open for questions. Before we begin, a short announcement from us. Mr. Sandeep Barasia has announced his decision to move on from Delhivery to pursue personal interests. On behalf of the employees, the Board of Directors and the shareholders of Delhivery, I'd like to place on record our gratitude to Mr. Barasia for his service as an Executive Director and Chief Business Officer of Delhivery for 9 years.

So, moving on, the broad highlight for the financial year is that we've announced EBITDA profitability for fiscal '24 at an aggregate level as compared to last year when we were integrating SpotOn, which was the year in which we had EBITDA losses. Moving on, in terms of key highlights, for fiscal '24. We've seen significant improvement in profitability through the financial year. Full year EBITDA profitability has been achieved. Fiscal '24 EBITDA increased by Rs. 578 crores versus fiscal '23, from a loss of Rs. 452 crores in the previous financial year to a profit of Rs. 127 crores this year. PAT losses have also reduced significantly. We were PAT profitable, as you would remember, in Q3FY24 and compared to fiscal '23, PAT losses have reduced by 75% from PAT loss of Rs. 1,000 crores to PAT loss of nearly Rs. 250 crores. This is the first time we will also be talking about service level margins.

Our Express Parcel business continues to show robust growth in key growth segments which are in the direct-to-consumer space, the SME space and heavy capability. We have achieved an overall service EBITDA of 18% for FY24, which is in line with our long-term projections for the margins of this business.

Our Part Truckload business, post the integration of SpotOn in fiscal '23 has registered significant growth in fiscal '24. We've delivered over 30% year-on-year growth with significant improvement in profitability and market share, despite Q4 generally being a somewhat muted quarter for the PTL industry at large.

Our supply chain services business has remained broadly flat in revenue terms year-on-year but has doubled service EBITDA profitability over fiscal '23. A number of our new customers who were expected to start in Q3 and scale through Q4 and beyond have done so. And we've had a strong end to the financial year and a strong Q4, which we hope will continue through the next financial year.

Our Truckload business has grown 40% year-on-year with improvement in service EBITDA profitability. And in terms of net cash position, we've seen a sharp reduction in net working capital days from 38 to 31 days.

In terms of quick statistics, we continue to be India's largest integrated logistics platform. We've delivered Rs. 8,142 crores of revenue in fiscal '24, which is a growth of 12.7% compared to fiscal '23 with an EBITDA profit of Rs. 127 crores and an adjusted EBITDA profit of Rs. 76 crores as opposed to an EBITDA loss of Rs. 452 crores and an adjusted EBITDA loss of Rs. 404 crores. This is our first year as a company where we are fully profitable at the EBITDA level.

We delivered 740 million Express Parcels in our Express Parcel business in fiscal '24, which is a growth of nearly 12% year-on-year and 1.4 million metric tons of Part Truckload freight, which is a growth of nearly 30% year-on-year.

In terms of numbers for Q4, we've delivered Rs. 2,076 crores of revenue from services, which is a growth of 11.6% year-on-year and a sequential decline from the peak quarter, Q3, of 5.4%. In terms of EBITDA margin, we've delivered Rs. 46 crores of EBITDA in Q4 and Rs. 21 crores of adjusted EBITDA which is a growth over the previous financial year and a decline sequentially.

We delivered 176 million parcels in the Express Parcel business in Q4 fiscal '24 and 384,000 metric tons of freight in the PTL business, which respectively represents a 12.8% decline in the Express Parcel business compared to the peak quarter and an 8.6% growth quarter-on-quarter in the PTL business.

In terms of key operating metrics, our network remains largely stable as we've indicated before. Pincode reach continues to be high at 18,793 pin codes as of Q4. We continue to service over 220 countries through our partnership with FedEx. We have expanded the overall number of active customers who access multiple services of Delhivery with 33,278 customers as of the end of Q4.

In terms of infrastructure, consolidation of key gateways continues. Total infrastructure under management has reduced to 18.8 million square feet with 111 gateways, 29 automated sort centers, 129 freight service centers, and we continue to operate about 4,400 last-mile delivery centers. In terms of overall performance for FY24, as I mentioned earlier, the graph on the left, revenue from services has increased by 13% compared to fiscal '23 from Rs. 7,224 crores to Rs. 8,142 crores. The composition of the business remains broadly similar. Express Parcel continues to be the largest part of our business overall at 62% of revenue. The PTL business has grown significantly between fiscal' 23 and fiscal '24 from 16% of revenue to 19% of revenue and our other businesses continue to form about 20% of total revenues.

Express Parcel revenues, which is the graph on the right, have grown by 12% year-on-year from Rs. 4,552 crores in fiscal '23 to Rs. 5,077 crores in fiscal '24, with a growth of 11% in shipment volumes from 663 million shipments in fiscal '23 to 740 million shipments in fiscal '24.

PTL freight revenues have significantly grown year-on-year by 31% from Rs. 1,157 crores in fiscal '23 to Rs. 1,517 crores in fiscal '24 backed by similar growth in freight tonnage from 1.1 million metric tons of freight in fiscal '23 to 1.4 million metric tons of freight in fiscal '24.

The Truckload business continues to show rapid growth. We've grown from Rs. 436 crores of Truckload freight revenues to Rs. 609 crores in fiscal '24. And the Supply Chain Services business that I mentioned remains broadly flat between fiscal '23 and fiscal '24 at about Rs. 780 crores of revenue. The Cross Border services revenue has declined as we continue to focus on ocean freight as opposed to air freight and have launched a new product less than container freight.

In terms of Q4 performance, Express Parcel revenues have declined sequentially 16% from Q3 to Q4 from Rs. 1,448 crores to Rs. 1,217 crores. This has been driven by a decline in volumes as compared to the peak quarter, which is Q3 from 200 million consignments in Q3 to 176 million consignments in Q4.

PTL freight revenues have grown 10% in the same period from Rs. 379 crores in Q3 to Rs. 417 crores of revenue in Q4 driven by growth in PTL freight volumes from 354 million metric tons last year to 384,000 metric tons of freight.

Truckload revenues have grown sequentially from Q3 to Q4 by 14% from Rs. 153 crores of revenue to Rs. 174 crores of revenue. Supply Chain services have seen an extremely strong Q4 as a number of new contracts, which went live in Q3 have begun to scale up and driven by a strong peak season for some of our core customers. Quarter-on-quarter revenue growth has been 36% from Rs. 173 crores of revenue in Q3 fiscal '24 to Rs. 234 crores of revenue in Q4. We've seen a sequential decline in the Cross Border services revenue, largely also driven by Chinese New Year in February. Revenues have declined from Rs. 39 crores in Q3 fiscal '24 to Rs. 31 crores of revenue in Q4.

In terms of adjusted EBITDA, overall adjusted EBITDA in the second half of the year has been positive at Rs. 113 crores and overall, for the year as well. As you can see in the graph on the extreme right, there's been an overall turnaround in adjusted EBITDA from an adjusted EBITDA loss of Rs. 404 crores in fiscal '23, which was a negative 5.6% to Rs. 76 crores in this financial year, which represents 1% of revenues.

This is a breakup of the adjusted EBITDA over the last 2 years. As you can see, Q4 revenue from customers stands at Rs. 2,076 crores versus Rs. 2,194 crores of revenue in Q3, which was the peak quarter. Service EBITDA has come in at Rs. 238 crores or at 11.5% of revenue, which is a sequential decline versus Q3, but 50 basis points higher in the same quarter last year. Corporate overheads have remained broadly constant over the last 2 years at Rs. 217 crores, and corporate overheads as a percentage of revenue have declined from nearly 12% at the start of fiscal '23 to 10.5% at the end of Q4. And in terms of overall adjusted EBITDA, we stand at Rs. 21 crores of adjusted EBITDA for Q4, which represents 1% of revenue.

This is the first time we're presenting this slide, which is in terms of our overall service line-wise profitability. This breaks up the overall service EBITDA for the company into 4 key service lines, which is Express Parcel or the core business, Part Truckload, Supply Chain services and our other businesses, which are smaller businesses that include Truckload and Cross Border. Express Parcel service EBITDA, as you can see, has remained robust throughout from Q1 to Q4 of fiscal '24, between 18.1% in Q1 to 17.6% in Q4. So despite a decline in volumes, we continue to see a robust service EBITDA for the core business.

Total service EBITDA from the Express Parcel business has grown from Rs. 636 crores in fiscal '23 to Rs. 934 crores in fiscal '24, which represents 18.4% of revenue and is in line with our long-term targets for this business. The Part Truckload business has shown sequential improvement quarter-on-quarter for the last 8 quarters. As you would remember, we began our integration with SpotOn at the start of fiscal '23, at which point the Part Truckload business stood at a negative 42.8% service EBITDA margin. Q4 fiscal '24 represents the first quarter of service EBITDA profitability for the Part Truckload business. So as volumes have grown, incremental margins in this business have remained in the range of 40% to 50%, and we generated Rs. 9 crores of service EBITDA in this business in Q4. We expect long-term margins in the Part Truckload service to mirror the Express Parcel business over time.

The Supply Chain Services business has doubled service EBITDA between fiscal '23 and fiscal '24, driven both by commercial renegotiations and operational optimization of several of our facilities. We've grown from Rs. 25 crores of service EBITDA in fiscal '23 at a 3.2% service EBITDA margin to Rs. 53 crores of service EBITDA in fiscal '24, which is close to 7% of revenues.

In terms of corporate overheads, corporate overheads have remained broadly range bound in the last 2 financial years. Detailed breakup follows. In terms of overall wages, wage costs have remained constant between fiscal '23 and fiscal '24, tailing off a little by Q4 and have grown essentially from Rs. 450 crores in fiscal '23 to Rs. 462 crores in fiscal '24. We've invested a little more in marketing to drive awareness and recall of the Delhivery brand this year, with marketing expenses going from Rs. 22 crores in fiscal '23 to Rs. 35

crores in fiscal '24. Technology costs have remained constant between fiscal '23 and '24 at around Rs. 170 crores and G&A expenses have remained more or less constant between fiscal '23 and fiscal '24, growing by Rs. 7 crores from Rs. 185 crores to Rs. 192 crores. Essentially, this robust growth of margins in the Express Parcel business and a significant improvement in the Part Truckload business is what has driven improvement of about Rs. 500 crores in the overall adjusted EBITDA for the company.

Working capital position continues to improve year-on-year as well. As you can see, we are now closing fiscal '24 with a net working capital position of 31 days. Receivable days have declined consistently over the last 5 financial years and especially between '23 and '24 from 77 days to 66 days, and we expect to see further improvements to this financial year. Payable days have also declined from 39 to 35 with net working capital changing from 38 days to 31.

So, it's a quick summary overall of quarterly and full year financial performance. As I mentioned, Q4 fiscal '24, Rs. 276 crores of revenue, Rs. 1,519 crores of freight handling and servicing costs. Employee benefit expenses have remained largely constant. There's been a reduction from Rs. 54 crores to Rs. 49 crores in share-based payments. Other operating expenses, finance costs have remained largely constant. Total expenses have declined from Rs. 2,290 crores to Rs. 2,257 crores leading finally to a loss after tax of Rs. 69 crores and an EBITDA of positive Rs. 46 crores or 2.2% of revenue. For fiscal '24, we've closed at Rs. 8,142 crores of revenue and a net EBITDA of Rs. 127 crores or 1.6%.

So overall, in summary, I think despite headwinds in Q4 facing the e-commerce industry as a whole and a generally slow environment for Part Truckload freight, I think post the peak quarter, we're satisfied with where the business stands. Service EBITDA profitability of the core business, the Express Parcel business remains at its long-term range. Part Truckload business continues to show significant improvement in profitability as volumes grow. The Supply Chain Services business has doubled profitability between fiscal '23 and '24. And our plan is to continue on this path for fiscal '25. So, with that, I'll pause, we are happy to take questions.

MODERATOR:

Thank you Sahil. We will 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 Gaurav Rateria.

GAURAV RATERIA:

So my first question is with respect to the Express Parcel business on industry growth. When we started the year, the expectation at that time was that the industry could grow 15% to 20%. We have ended the year with a volume growth of 11%-12%. So, I just want to understand that has the industry growth disappointed and hence, the overall growth turned out lower or is it also the issue of not every customer growing at the same pace? And hence, that is what is reflected based on our portfolio of customers. And how should one think about growth going forward from at least the next 12 to 18-month point of view?

SAHIL BARUA:

Sure. I think it's a combination of multiple factors Gaurav. Some of these numbers are yet to come, and we'll see. There has been softness overall in online consumption in Q4 for sure. I think Q3 was a big peak and if you'll remember from my previous earnings call, I had pointed out that we do expect there to be certain volatility in volumes overall. So, I do think there's been softness in Q4 overall in online consumption. Going forward, we don't anticipate any reason to believe that the 15% to 20% sort of numbers that we put out in the past are at risk. When we speak to participants in the industry, I think the expectation is that this sort of growth rate will persist. There have been certain factors sort of in these last 4 or 5 months also, which have affected online consumption. In our case, this is the period when we negotiate terms with a number of our key customers. And at this point, that's always a case when customers and us are sort of realigning priorities and realigning volumes. And I think some of that is reflected especially in the middle of that quarter. But I think we've concluded those satisfactorily. And towards the end of the quarter, I think we were sort of back to more or less business as usual. So, I don't think it's a persistent softness per se. There has been some softness overall. But I don't anticipate that this damages long-term growth for e-commerce or our prospects in any way.

GAURAV RATERIA:

Got it, Sahil. Second question is on margins. You said that we have already reached closer to what we have been calling out as a steady-state margin in Express Parcel. So where do we go from here? As a strategy, we want to keep our margins in line with what we have already achieved and incremental savings, which may still be there as the network has continued to surprise us positively in operating leverage and redeploy that back in the business in the form of further investment. So just your philosophy on how to think about margins.

And last question, just a data point on what was the Capex number for this year? And how should one think about Capex going forward from FY '25 perspective? Thank you!

SAHIL BARUA:

Sure. In terms of margins, Gaurav, I think if you look at it, the first step after the SpotOn integration for us was really to return the Express Parcel business to what its normative margins are. I've referred to this at several points in previous analyst calls that we expect the Express Parcel business to be in that 18% to 20% margin range. And that's also driven, of course, by philosophically, our view that as we start generating higher cost efficiencies, we will pass some of those back to customers.

I think going forward, we'll see how that continues. We haven't seen any significant sort of pricing movements being necessary in the market so far, and we don't anticipate that there will be significant pricing movements at this point going forward. That said, I think I've mentioned this before, we are an input cost to our customers, and ultimately, online consumption in India can only grow if the cost of logistics is sort of managed carefully. I think Kalyan has spoken about this in the past as well, saying logistics is one of the key impediments to the growth of e-commerce in India. As the largest player in this space, I think we have a responsibility, as we generate more and more efficiencies, to pass some of those benefits back to customers. And it's not just to our largest customers but equivalently, as we mentioned in the past, it is to also pass this to smaller direct-to-consumer brands, SMEs, various kinds of sellers in online commerce. So, I think let me put it this way. We're glad that we are at the 18% mark for the financial year. As you can see, the network has the ability to deliver higher margins, we have delivered 20.6% service EBITDA in Q3 as well. Now whether we will pass or how we will pass some of the cost efficiencies that we'll inevitably discover in fiscal '25, and that's going to be a customer-by-customer discussion overall.

And if necessary, I mean, let me anticipate questions that will come further down. Should we feel the necessity to defend market share at any point in time? As you can see, we have the margins to do so. And that's a call that we will take with every customer and in every segment individually.

In terms of Capex. Overall Capex intensity, as I mentioned, is expected to reduce with time. Our overall Capex for fiscal '24 stands, I think, at about Rs. 600 crores, which is close to 7.4% of revenue. We expect this to decline in fiscal '25 to somewhere between 6.6% and 6.9% of revenue overall. The only sort of major capital investment that we have planned for fiscal '25, as I mentioned before, is starting off our mega facility in Bangalore.

GAURAV RATERIA:

Thank you.

MODERATOR:

We'll take the next question from Vijit Jain.

VIJIT JAIN:

Sahil, my first question is just in the Express Parcel business, the yields in 4Q are up 6% Y-o-Y and they're also up versus the 1H levels, maybe about 2%-3%. Is that a function of what the customer mix was like in March '24 in this current quarter?

SAHIL BARUA:

Vijit, we had discussed this before. Yield is a complex piece. It obviously has to do with mix shifts. Outside of that, obviously, the very pricing structure that we have with a variety of customers based on the volume that they give us, the yields are different. So that also had an impact overall. And we've also, over time, been growing our share in the market of heavier parcels where yields are naturally somewhat larger. And in some accounts, we've also had upward pricing revision in some key accounts where we believe it was necessary. And so that's one of the reasons why yield has gone up. Overall, small parcel average weight has also increased from about 700 grams to 780 grams and heavy parcel average weights have increased from about 19.9 Kgs to about 21.4 Kgs. And so that's also driven a yield increase Y-o-Y. Let me put it this way, at an individual customer level, we don't anticipate violent yield changes through this financial year. What the specific yield in any given quarter will be will sort of depend on customer mix, distance, weights and so on.

VIJIT JAIN:

Sure, Sahil. Second question, in the quick commerce segment, I would just like to get your sense on how you can participate in that opportunity in the quick commerce opportunity that it is and I mean, I'm assuming that if at all, that would be in the non-Express Parcel verticals, right? And is there any sense of what the size of the opportunity is where you guys are concerned?

SAHIL BARUA:

Sure. I think quick commerce is interesting. We already do service the quick commerce industry. In fact, one of the largest players in the space is a customer in our Supply Chain Services business. Our role will really, as I see it, remain sort of similar to what we do right now, which is running sort of the deep reserve kind of warehouses, which are supplying the dark stores. We have also, in the past evaluated whether or not we would run dark store infrastructure and delivery infrastructure for players. But I do want to point out that I think while there's a lot of excitement about quick-commerce and justifiably so perhaps from a consumer value proposition standpoint, I think there's still a lot to be evaluated in terms of the overall model. I mentioned this in the past, will we be doing 15-minute or 10-minute delivery of groceries, it might be famous last words but I don't think so. But there are other categories where I think our services will be more relevant. And I also think there's a sub-segment of quick commerce, which is yet to be evaluated. There's a long distance between 15-minute delivery and same-day or next-day delivery. I think there will be a segment which will emerge for certain kinds of products, which will be sort of 2-hour to 4-hour kind of deliveries. We already perform this in all of the cities that we are present in.

I also anticipate that certain categories within e-commerce which are more amenable to being in quick commerce, such as maybe structured categories like mobile phones as an example or certain kinds of appliances, I think the existing players, the large players in e-commerce will eventually gear up. Flipkart and Amazon, both made public announcements to this effect that they will be expanding their operations for these categories, I think we'll have a role to play there in the overall supply chain.

Vijit Jain:

Great. Sahil, my last question. In the Supply Chain Services business, I think in your opening remarks, you mentioned that the new customers that got onboarded over 3Q, 4Q reflects the 4Q strength here. Two questions related to that. So, should we, going forward, expect some of the seasonality that has been typical in this to reduce and is 4Q the right revenue numbers to look at from a going-forward perspective here?

And lastly, related to it, thanks for breaking up the service level-wise service EBITDA margin from this quarter. My quick question is, do you expect all 3 verticals to remain somewhere above zero going forward?

SAHIL BARUA:

It is significantly above zero not somewhere. I mean the Express business is at 18%.

VIJIT JAIN:

Yes. I mean Supply Chain Services really, yes.

SAHIL BARUA:

Yes, absolutely. The Supply Chain Services business, I think profitability will improve going forward. In terms of seasonality, look, we have a couple of clients who obviously have highly seasonal businesses. And as I mentioned, that's partly why we've seen significant growth in Q4. I think we will see a pretty solid base in Q1 as well. That's said, we're diversifying the total set of customers that we work with. But to be perfectly honest, I think this is a business where when we go and sign a new customer, that customer spend could be anywhere from the smaller end Rs. 50 crores a year toward the upper end about Rs. 200 crores to Rs. 300 crores a year. So, as I mentioned before, this business starts taking a more or rather less choppy form once it gets passed sort of Rs. 2,000 - Rs. 2,500 crores in revenue size. That said, we will expect growth this year in the SCS business. We will expect improvement in profitability. Yes, it will remain materially above zero. And our aim, obviously, is to grow the 6.3% service EBITDA significantly through this year.

And on PTL, just very clearly, I mean, we've given out 8 quarters of data. You can now see how the incremental margins in the PTL business play. Our ambition, obviously, is to keep growing volumes as we've done in this quarter.

MODERATOR::

We'll take the next question from Sachin Salgaonkar.

SACHIN SALGAONKAR:

Hi, thanks for the opportunity. I have 3 questions. Let me ask them one by one. Sahil, can you help us quantify the impact? I presume it's basically Meesho, who is using Valmo for its in-source deliveries, and that's the reason why the impact is out there. And I think in one of the questions you did answer that this impact happened somewhere in the middle of the quarter. So, should we assume a full impact on shipments next quarter?

SAHIL BARUA:

I think in terms of Meesho's growth of Valmo, I think over the last year they've grown it significantly. But at least from what we understand, it seems to have reached a stable-ish state within their own sort of universe. I think they were also realigning their expectations with multiple logistics partners. And I think we've come now to an agreement. So far, I think we continue to have an excellent working relationship with Meesho. We are very satisfied with where we finally sort of agreed on plans for this financial year. And so far, with the start of this financial year at least, we are satisfied with where we are.

SACHIN SALGAONKAR:

Okay. Second related question, I presume the way this entire contract with Meesho worked is given the fact that now Meesho is giving lower volumes, they do have to pay a bit of a penalty which, in a way, perhaps gets reflected into your EBITDA. Going ahead, I just want to understand as these contracts get renegotiated, should we have some impact on your EBITDA margin in the near term given the fact that the scale will now be different with the in-sourcing coming from Meesho?

SAHIL BARUA:

Sachin, I think you've seen that volumes have gone from 200 million consignments to 176 million consignments and EBITDA margins have remained at 17.6%. I think one of the reasons why we've also decided to release segmental margins is to point out that the margins in the business are not particularly volatile to these swings in Parcel volumes. Of course, if we were doing 100 million consignments, life would be very different, but we're not. And we don't anticipate that, that will be the case.

Also, I think it's worth bearing in mind that starting a logistics company is harder than sort of growing it beyond a point. And I think there are severe questions that various self-logistics players, especially ones who are working on a relatively loose model, will have to face as they continue to grow, which is how do you build the physical infrastructure that's necessary. And then is it really as cost-efficient as you think it is. So, neither do I anticipate significant volatility coming any further from here from various players deciding to experiment with various logistics models in terms of volume nor do I anticipate it having a material impact on our EBITDA.

The other reason, of course, which I should point out, and this is core, we've been talking about it for a while, this is precisely why we run an integrated network. The ability to run a Part Truckload network, the integrated network allows us to have lower costs even in the Express Parcel business, which is partly what allows us to deliver the margins that we do. I mean, if we were a parcel only player right now dependent on a single company who forms a large percentage of our volumes and is launching self-logistics and putting price pressure, sure, I mean, life would be pretty hard. But fortunately, for us, that's not the case.

SACHIN SALGAONKAR:

Got it. And my last question, clearly, you are #1 player in the 3PL space and your volumes got impacted. So, I presume some of your smaller competitors will have a much more pronounced impact with what Meesho has done. So, on the back of it, should we see some material change in market shares in the industry in favor of you or perhaps in a scenario of further consolidation in the industry?

SAHIL BARUA:

I am the wrong person to ask to comment on this because I mentioned this in the past, we are fairly certain that if you take the third-party players put together and our Express business, we are materially over 100% of the profit pool of this industry. Now the reality is in most normal markets, one would assume that this would be a significantly consolidating force but as I mentioned before, I think this depends on how much money private investors have and are willing to continue to put into companies which are monoline players dependent on single or 2 customers. So, I can't comment on that. I think consolidation would be good. I'm not sure what form it would take because in this particular situation, I firmly doubt how we would be the consolidator. So I'm not entirely sure where anyone goes from here, but I can speak for Delhivery, which is that we are happy with the volumes and the margins that we have.

MODERATOR::

We'll take the next question from Krupashankar.

KRUPASHANKAR:

Thank you for the opportunity. Congrats on the PTL business breaking even at service EBITDA level. So, questions on PTL predominantly. How are you finding the competitive intensity in this space? And given that you had deployed a significant portion of your capital towards expanding infrastructure and deploying workforce to boost volume, so are you seeing that we are growing well ahead of the industry, primarily on the back of these efforts? Or is it more of a pricing-led shift, which is visible and are you seeing any change with respect to your end customer mix with a higher MSME in the second half of FY '24?

SAHIL BARUA:

Yes. I think, look, we've seen growth across all of our segments within PTL, more or less throughout the financial year. We have, of course, seen significant growth in our SME segment, but to be clear, we've also seen growth in our major accounts segment. We've also seen growth in the aggregator segment that works with us. So we are seeing growth at least across all of these.

In terms of competitive intensity, I think competitive intensity remains what it is and what it has always been. I think the other listed players have declared the results, I'm sure you've seen them. I think in general, our approach has been very simple, and I've spoken about this before. Globally, in every single market Part Truckload has been large and consolidated. In India, this is not the case. I believe that over a period of time as the economy and logistics formalizes, India will be no different. And in that environment, I think it would be financially irresponsible for us to not build capacity to service this market.

I don't believe that's in the best interest of our shareholders. And as long as we're able to do it while improving margins, which we have in the last 8 quarters sequentially, I think these investments are clearly paying off.

Now why we are being chosen is not because we have a lower price. If you look at our yield, our yield is broadly in line with all other players in the market. We don't intend to charge a premium. That's not the core of Delhivery's philosophy in any case. It is to drive further efficiencies and then derive margins out of that and hopefully pass some of those benefits to customers. But I do want to be clear, it's also driven by the fact that we are a faster network. We are a more direct network as a mesh and our service reliability clearly stands up to scrutiny. So our growth is driven by a combination of high service quality, high reliability, high reach, a lower cost structure and our margins continue to improve. And I think that will remain the story.

KRUPASHANKAR:

Right. And with respect to profitability, I've noticed that the incremental gross margin on transportation was not given out this time around. But are they still higher than 50%? Or are you seeing that tapering off as well?

SAHIL BARUA:

Well, we didn't give out the incremental margins this time because we have given you the actual margin, so you can actually simply calculate the delta and revenue and the delta and service EBITDA and do it yourself.

KRUPASHANKAR:

So, it was more on gross margins. That's why I was just wondering if that is on an upward trend. You have given us the service EBITDA. That's true. But it will also have other costs involved in that. That's why I'm just confirming that part.

SAHIL BARUA:

Incremental margins continue to remain in the 40% to 50% range.

KRUPASHANKAR:

And second question would be on the Capex side of things. So, I noticed that there has been good amount of spends on your on vehicle addition in your entire breakup which you have shared. So next year, is it going to be more focused on the infrastructure addition and other aspects and less on vehicles or broadly the mix remain the same?

SAHIL BARUA:

In fact, I think infrastructure will come down, as we've mentioned, because the last 2 years have been atypical with both the SpotOn integration and the need to build high-quality capacity and we had our Bombay mega facility going live. In terms of infrastructure, the only major addition that I foresee through the financial year will be the addition of the Bangalore mega facility that I've spoken about. Outside of which then we don't have any further mega facilities that at this point seem necessary. I think we have sufficient capacity across the network and we just allow the network to fill up.

As I've mentioned in the past, we also continue to engineer ways to generate more capacity out of the existing facilities. So that's also partly why you're seeing a fairly rapid improvement in margins, especially in PTL. So I don't think infrastructure will necessarily be a very large expansion next year. It's not planned for. In terms of vehicles, I think it remains somewhat opportunistic. The vehicles are core, as I mentioned in the past, to our overall strategy. And we will continue to expand our tractor-trailer fleet through the year. That said, I mentioned this before, the incremental growth, I think, will start tapering off because ultimately, the fact of the matter is that there's a limit to how many hubs we can create also over the next financial year. So I think Vehicle Capex will remain broadly sort of in range, infrastructure Capex, I think, will come down.

MODERATOR::

We will take the next question from Sachin Dixit.

SACHIN DIXIT:

Congrats on turning profitable on EBITDA basis for the year. My first question was in line with the fact that we are seeing some marketing popping up, right? As you highlighted, like it has gone up. Obviously, it's a very small number. But this was the first time I saw that Delhivery was sponsoring RCB in IPL, and there were also some minor ads that popped up here and there. So, is it a strategic move where you are trying to sort of gain some B2C business and that's why you are showing up on TV and brand marketing?

SAHIL BARUA:

I think the aim of the marketing really is to drive more awareness and recall of the Delhivery brand. If you remember, one of the things that I had referred to in the past, in the last financial year, was expanding our sales presence and our feet-on-street presence across cities outside the major 3 or 4 cities where we were present. Now when we're sending a sales force out into smaller towns around the country, obviously, that has to be backed by a marketing effort.

Think of it as sending the air force over the infantry, we do need to do that. And that's the role that the marketing campaign is really playing. It's creating awareness and recall for Delhivery as a brand. Outside of which we obviously continue to do the marketing that we do on our physical assets which is our trucks and our facilities and our riders. And we continue to invest a small amount of money, relatively speaking, on performance marketing and digital marketing for both the consumer side of the business and on the small business side. I don't anticipate any significant sort of breakout spend on marketing. We'll remain sort of more or less range-bound overall. But yes, it is an attempt to increase overall awareness and recall of the Delhivery brand.

SACHIN DIXIT:

Second question is on Supply Chain Services basically. So, we finally saw that revenue in that segment popped up. And I think there is some seasonality where you see Q4 and Q1 being the stronger ones, so do we expect this trend to continue on a Q-o-Q basis going forward? I mean Q1 obviously could be strong because of the seasonality, as I alluded. But on a Y-o-Y basis as well, do we see this strength to continue.

SAHIL BARUA:

Yes, we have a number of active conversations, which are on. The pipeline continues to remain strong. It, of course, depends a little bit on when exactly some of these things will become operational. Some of the conversations that we're having. For example, we have a conversation ongoing with the large auto player for the spare parts division. Now it depends on when exactly we go out and start this. We continue to see momentum even on the e-commerce side, a number of direct-to-consumer brands are now utilizing our fulfillment services for an integrated prime-like offering. But that said, as I mentioned before, we expect to see growth this year in the Supply Chain Services business, exactly what path it will follow through the financial year. I think it's difficult to predict at exactly this moment.

Our focus for the first 2 quarters at least will remain, and I do want to be clear about this, on continuing to improve the profitability of this business. We have a solid base of customers. We do Rs. 800 crores of supply chain services business with them. And I want to grow that 6.8% service EBITDA that we have in that business to its full potential.

MODERATOR::

We'll take the next question from Lavanya. Lavanya please go ahead.

LAVANYA:

Thank you for the opportunity. Congrats on EBITDA numbers for full year. So just one question from my side. So just like how you had mentioned the stable margins per Express Parcel of around 18% to 20%. Would you see the stable levels for Part Truckload and Supply Chain Services?

SAHIL BARUA:

Part Truckload, is a similar sort of aggregation, disaggregation business as the Express Parcel business and subject to more or less the same forces. PTL is, philosophically, just bigger boxes and more moving together. It's not fundamentally different from Express Parcel. So, our view is that long-term margins in that business will be similar to the Express Parcel business.

On Supply Chain services, Lavanya, it depends on every account, each account has a fairly different profitability profile. And that's because it depends on the mix of transportation, as an example, at the moment, we have e-commerce companies who work with us on supply chain services where we're doing parcel delivery for them. We have our big accounts on the B2B side, where we're doing both for part truck and full truck freight. And the overall margin for the account sort of is dependent on what our margin individually in warehousing and then in transportation is and what the mix of transportation is. The way we look at it, though, is that the IRR that we expect on all of the customers that we sign in the Supply Chain Services business will be north of 20%.

LAVANYA:

Okay. Got it. And also on the infrastructure part, you mentioned that we won't need a lot of infra side investments going ahead. So, the current investments of the current infrastructure, what's the view that until how much will that be able to serve the current capacity? How many circles, I mean, asset turns or utilization; however, you look at it. So, what's the view in terms of the next investment, when would it be required?

SAHIL BARUA:

Yes, it's a difficult question. I've referred to this in multiple earnings calls in the past. I don't think we anticipate any very significant increase in facility infrastructure other than, as I mentioned, the Bangalore mega facility, which also, by the way, I should have clarified earlier, will be a consolidation of the facilities that we have in Bangalore. Overall, I think we don't anticipate for at least the near term and even perhaps the early midterm any significant change or any sort of massive expansion in infrastructure. So we do have sufficient capacity. Now the reason why I'm not putting a numerical thing saying that we have 63% capacity utilization of the network or whatever is because we do continue to engineer processes and increase the capacity of the existing facilities we have.

As I mentioned at our mega gateway at Tauru, our belief is that over the last few years, as we've improved processes, we've expanded the available capacity in that facility in the last 3 years by anywhere from about 10% to 15%. So it's difficult to say exactly what our capacity utilization is. Suffice to say, we have sufficient capacity available to grow through fiscal '25. We will need to build our Bangalore mega facility. And there may be some smaller hubs that are planned here and there, but there's nothing major outside of this.

MODERATOR::

We'll take the next question from Anshul Agrawal.

ANSHUL AGRAWAL:

Sahil, would you be able to break up contributions from horizontal players or D2C players in our Express Parcel volumes?

SAHIL BARUA:

No.

ANSHUL AGRAWAL:

Some range, at least?

SAHIL BARUA:

No.

ANSHUL AGRAWAL:

Okay. And while I understand we don't differentiate between customers, would inherently the margin profile of these 2 customer bases be different or slightly different?

SAHIL BARUA:

You're asking me the same question. So unfortunately, we do not disclose customer-level margins.

ANSHUL AGRAWAL:

Thanks a lot, Sahil

MODERATOR::

We'll take the next question from Manish Gupta. Okay. Manish seems to have dropped off. We'll take the next question from Sriram.

SRIRAM:

Yes. First of all, thanks for providing service level wise profitability that really helps. So, I have 2 questions. Now with Rs. 1,500 crores in PTL, are we the #2 player in the PTL business behind Safexpress?

My second question is on the margins of PTL, like with Rs. 1,500 crores, we are still in low single digits. And whereas the listed player is reporting double-digit margins with Rs. 1,200 crores. So I just want to understand what is the difference? And if there is any form of discounting being offered in that segment versus your competition?

SAHIL BARUA:

Sure. That's a good question. The simple answer on the second one, Sriram, is that our capacity utilization differs from the listed players. I mentioned this before, I think what you can also see and what is important to compare is the relative growth rates that we've all seen. To the best of my knowledge, at least the results that have come out, the listed players in Q4 have been flat at best or actually have declined in size from Q3 to Q4, whereas we've grown volumes by 10%.

I've discussed this in the past, I think India deserves a large PTL player. I think there will be multiple large PTL players over time. And if we are to bring down the overall logistics cost in the economy, companies like Delhivery are going to have to invest aggressively in building capacity. So our base network size is larger than others, which is why at the moment, our margins are below the margins that others are reporting. As the network continues to fill up, margins in the PTL business will continue to go up. If you look at our numbers for the last 8 quarters, you can see a fairly consistent trend. As volumes have increased our margins have improved. Incremental margins have remained in that 40% to 50% range. And as capacity continues to get utilized, our margins will continue to go up.

The important thing is as we continue to grow, we anticipate that the long-range profitability of our PTL business will at worst be equivalent to other players in this market and at best will be significantly better. So we will continue to grow. That's our priority. We've done 1.4 million metric tons of freight in this financial year, which is 30% over the previous year. We'd like to keep that kind of growth rate going forward from here. And we expect margins will continue to improve.

But fundamentally, when you're comparing us to listed players who don't wish to expand capacity, I think you're comparing apples to oranges. In terms of size, are we the #2 player, I think so. Safexpress is certainly larger than us. And we are probably the second-largest player after them. But that said, in this market being #1 and #2 is meaningless. None of us is competing at the moment. Let's put it this way, with a large portion of the market being unorganized, all these #1, #2, #3 comparisons don't matter. We are all in this to grow versus the unorganized market and to keep gaining scale.

SHRIRAM:

Yes. And my last one on the discounting part. Can you just elaborate?

SAHIL BARUA:

Yes. Sorry, I thought I already addressed this earlier. No, we do not discount. We don't need to. So there's no discounting that we have done and our pricing is comparable to the market.

MODERATOR::

We'll take the next question from Abhishek Maheshwari. Abhishek please go ahead and ask your question.

ABHISHEK:

So firstly, what we gauge from your financial statements, the operating leverage has really started to kick in, now you are EBITDA positive and if sales continue to grow as they are, you will probably turn PAT positive next year. So just wanted to gauge your confidence level if the demand is growing linearly from the empirical data that you have or the talks you're having with your clients, are you feeling confident that this 14% to 15% kind of growth will continue sustainably for the next few years?

SAHIL BARUA:

On the spot, Abhishek, because while I certainly feel confident history has sort of been unkind when I've been confident in general. But look, I certainly think there's nothing that damages e-commerce growth over the mid- to long term. As you've seen, while share shifts may happen occasionally in a single quarter, over the long arc of time Delhivery's position is very secure. So, I think we will either grow with the market at worst or we grow market share. So, I'm not too concerned on that front.

On PTL, as you can see, we've had a quarter where while the industry has struggled, our value proposition to our customers has been sorted. I think there's no reason to believe we will not continue to grow. And whether it will be exactly linear or sort of more hockey stick over the next year or 2, we'll see. It also depends on our ability to put more sales teams on the ground, grow our sales and customer service capabilities, which we continue to do.

So yes, I think the operating leverage plays out. I think volumes will continue to grow. I think we will continue to grow. What the exact trajectory will be quarter-on-quarter, I think is difficult for me to say. We're very happy where we are at the end of fiscal '24 despite a somewhat softish end, but I think I'm fairly confident that I'll be even happier in fiscal '25.

ABHISHEK:

I would like to emphasize on this because you see PAT is very, very sensitive right now. So, let's say, if you continue to grow your volumes by maybe say 12%-13%, at the same time, competitive intensity is also really shooting up, so do you think realizations are something that you can control, you have some pricing power or we are just following the market.

SAHIL BARUA:

That's a good question, and I'm glad you brought it up, I will bring this up. On the Express Parcel business, I mentioned this before, for the best of our knowledge across the Express Parcel business, if you don't count the captives, which are generally cost inefficient, fairly certain, we are more than 100% of the profit pool of the industry. Now if our competitors decide to commit harakiri, which is to lose even more money than they already do, I can't legislate for that. But that said, I don't anticipate pricing pressure at all. I mean if somebody decides that they want to make no money, then obviously, everybody in the industry is at risk, there's no doubt. But the question is how long can you continue to sustain that? My view is not very long. So, we don't have pricing pressure in that regard. And I should also point out, if you look at our trajectory of yield, the important thing to see really is that while we have brought yield down, we have maintained service EBITDA margins in the range that we specified and we will continue to do that. And we have grown the overall service EBITDA for the business by 50% from fiscal '23 to fiscal '24. We've grown from about Rs. 600 crores of service EBITDA in the Express Parcel business in '23 to Rs. 940 crores of service EBITDA in fiscal '24. So, what you're calling competitive intensity is competitive existence, they exist. But in that regard, I don't particularly feel like we are under any intense pressure.

ABHISHEK:

Understood. That was helpful. So, second question is regarding your new subsidiary Delhivery Robotics. So, from what we went through in the press release, it's about drone manufacturing and air freight transport. So, do you want to throw some light on your plans in this?

SAHIL BARUA:

It's very early. We have drone manufacturing capabilities, and we have the ability to support a variety of use cases, which include surveillance and delivery up to a certain payload. But that said, it's a capability at this point in time, and fortunately not a very expensive one for us to build. But I've mentioned this before, I think the commercial applications for drones at least in India, frankly, around the rest of the world as well, but at least let's stay focused on India, I don't think there are any particularly great commercial applications for drone delivery in India right now. I mean, T-shirts and pizzas are really not expensive enough for you to want to deliver by drone in India at this point. So, it's a capability. We've established this because we are required to establish this in order to continue our research into these areas. And if this becomes large, let's put it this way, we will be well positioned. And that's about it.

ABHISHEK:

So, you do not have any significant plans in this subsidiaries so far? I ask this because this seems to be a long gestation project where you might have to expense a lot before you start seeing revenues. So just wanted to understand if it might impact your PAT generation capability, turning to PAT profitability in next 2, 3 years.

SAHIL BARUA:

It won't. I can assure you that it won't. I mean engineering students are producing drones these days.

MODERATOR::

We'll take the next question from Pulkit Patni.

PULKIT PATNI:

As I look through your quarterly service line-wise profitability, which you've shared this time. For the first 3 quarters, I clearly see the impact of operating leverage where Express Parcel service EBITDA has increased. Any reason by this quarter despite volume being up, I think, slightly the service EBITDA has actually fallen for the Express Parcel business. And why it's important Sahil is just from an operating leverage perspective, as we look at volumes in the future, obviously, this is something that should help the margin line.

SAHIL BARUA:

Yes, man. I assume you're referring to the delta between fourth quarter fiscal '23 versus fourth quarter fiscal '24 for the Express Parcel business.

PULKIT PATNI:

That's right.

SAHIL BARUA:

Yes. The 18.6% versus 17.6% it's largely the impact among other things of the large Bombay sort of going live. So, it's a slightly less capacity utilized sorter than the one that we had in the past.

PULKIT PATNI:

Okay. And what is the status in the first quarter for the same?

SAHIL BARUA:

As volumes have gone up in the first quarter, capacity utilization has increased. But broadly speaking, like I mentioned, we expect that the service EBITDA in this business will remain sort of in this 18% to 20% kind of range.

MODERATOR::

We'll take the next question from Lokesh Maru.

LOKESH MARU:

Congratulations on excellent set of numbers in all the services this quarter again. Just on the Express Parcel segment, so like you mentioned that there has been some kind of a settlement under shape up, which has happened in Q4, right? So, now everything like larger volumes being in the base of FY '24, for FY '25, what kind of volume growth are you anticipating, in this new equilibrium kind of a situation?

SAHIL BARUA:

See, I think industry growth, at least as far as we've been able to gather from our clients as well and their appetite, remains in that 15% to 20% range. If anything, actually, to be honest, most of our clients do believe that this will be a pretty solid year for them overall. We're being conservative and assuming that 15% to 20% growth is kind of what we will see and that's what we've also planned our internal operations and capacities for. Obviously, if volume growth is higher, I'm very happy to be pleasantly surprised by this. So I think in the fourth quarter, we had some negotiations that we had to conclude. Those are concluded. And I think looking forward, no reason to particularly believe that the 15% to 20% number is sort of at threat.

MODERATOR::

We'll take the next question from Harshal Mehta.

HARSHAL:

Actually, given this good growth in the B2B segment, what kind of truck utilization we saw in Q4?

SAHIL BARUA:

Broadly across the trailer network, if I break it in half, I think truck utilization on the trailer network would have been in the range of about 65% or thereabouts. Broadly speaking, on the secondary line haul, we would have been closer to about 55% to 60% utilized on secondary line haul, which is not the tractor trailers, but the smaller trucks. So, I guess if your question is, is there further sort of improvement possible on cost or utilization, I think we still have some distance to go.

HARSHAL:

Like it will be visible next year? I mean utilization improvement.

SAHIL BARUA:

It should be. Unless, of course, the pattern of load changes vary dramatically. That is the only thing which can, for a short period of time, throw off the overall network capacity utilizations a little bit. To give you an example, let's say, we start generating a lot of load out of a location which is not a tractor-enabled hub at this point in time, that kind of overall network utilization. But as of now, I don't see any such wild swings.

HARSHAL:

And what kind of growth in the B2B segment are we projecting into FY '25?

SAHIL BARUA:

Look, we've grown 30% this year, right? I think the market is large. We have the opportunity to grow into this market. We have established a sales team in tier 1, tier 2, tier 3 locations. We continue to sort of go into new industries that we weren't servicing in the past. So to give you an example, we didn't particularly service, for instance, the batteries industry or the chemicals industry in the past. These are industries that we're going into. We intend to go to FMCG in a larger way. These are all large buyers of PTL. So I think the growth outlook is pretty solid.

HARSHAL:

And can you bifurcate based on your customers as in SME corporates or retail?

SAHIL BARUA:

We don't do that.

HARSHAL:

Is it like corporate heavy currently?

SAHIL BARUA:

Well, I don't know what heavy means.

HARSHAL:

And currently, your margin suggest that.

SAHIL BARUA:

Margin suggest low-capacity utilization, which, as I mentioned, will continue to increase.

MODERATOR::

We'll take the next question from Vipin Gupta.

VIPIN:

Can you give us some guidance regarding 3 years for the top line and the bottom line?

SAHIL BARUA:

No, Vipin. As I mentioned, we expect e-commerce growth to be in that 15% to 20% range broadly. On PTL, as I've described, I think the market is large, we have the opportunity to grow. We've just grown 30% this year. Competitive intensity is generally not very high, I think you can build various cases. And in Supply Chain Services, I mentioned that the focus in the very near term, of course, is to continue to improve margins. But going forward, it depends on how the pipeline converts. So, I don't necessarily want to put out a 3 to 5 year sort of thing. And many things can happen in 3 to 5 years.

MODERATOR::

Thank you. We will take that as a last question. Request all the participants to take any further questions with the Investor Relations team. 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 and the Macquarie team. Thank you for hosting us. Thank you to all of you who joined on this Friday evening. In summary, again, I think our main objective for fiscal '24, which was to stabilize the business after the integration and achieve EBITDA profitability has been achieved. We're happy to also share our service level wise results. And I mentioned the Express Parcel business is a good place. We are at our long-range margins. We'll see how these margins progress going forward. The PTL business continues to grow and improve margins. The Supply Chain Services businesses doubled profitability. So, I think we look forward to fiscal '25 with a lot of confidence and enthusiasm. So, we look forward to seeing you all in our Q1 call. Thank you.