DELHIVERY

Date: November 21, 2022

BSE Limited
Floor 25, P J Towers,
Dalal Street,
Mumbai – 400 001
India

Scrip Code: 543529

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

Symbol: DELHIVERY

Sub: Transcript of Earnings Call pertaining to the Unaudited Financial Results for the quarter and half-year ended September 30, 2022

Dear Sir / Ma'am,

This is in continuation to our earlier letter dated November 14, 2022 regarding audio recording of the analysts/investors Earnings Conference Call held on November 14, 2022 at 04:30 P.M. (IST) on the performance of the Unaudited Financial Results of the Company for the quarter and half-year ended on September 30, 2022.

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

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

You are requested to take the same on your record.

Thanking you,

Yours faithfully,

For Delhivery Limited

SUNIL KUMAR BANSAL

Digitally signed by SUNIL KUMAR BANSAL
Date: 2022.11.21 11:02:54 +05'30'

Sunil Kumar Bansal
Company Secretary & Compliance Officer
Membership No: F4810

Place: Gurugram

Encl: As above

"Delhivery Limited Q2 FY23 Earnings Conference Call"

November 14, 2022

Management:	MR. SAHIL BARUA, MD & CHIEF EXECUTIVE OFFICER
	MR. SANDEEP BARASIA, ED & CHIEF BUSINESS OFFICER
	MR. AMIT AGARWAL, CHIEF FINANCIAL OFFICER
	MR. VARUN BAKSHI, HEAD, INVESTOR RELATIONS
Moderator:	MR. RISHI IYER, CITI EQUITIES TEAM

Moderator: Ladies and gentlemen, on behalf of the Citi Equities team, I welcome you all to the 2nd Quarter FY23 Earnings Conference Call of Delivery Limited. From Delhivery's management team we are joined today by Mr. Sahil Barua, the MD & Chief Executive Officer; Mr. Sandeep Barasia, ED & Chief Business Officer; Mr. Amit Agarwal, Chief Financial Officer; and Mr. Varun Bakshi, the Head of Investor Relations.

Before we start, we 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, we request you to drop off this call immediately.

As a reminder, all participant lines will be on a listen-only mode; and participants can use the raise-hand feature to ask any questions post the opening remarks. Please ensure your name is visible, as first name, last name, followed by your organization name, for us to be able to identify you before we take your questions.

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 for the quarter, post which we open the floor for Q&A. With that, over to you Sahil.

Sahil: Thank you Rishi and thank you to the Citi team for organizing this. Just a quick check that I'm perfectly audible.

Moderator: Yes sir, we can hear you.

Sahil: Excellent, thank you. Thank you all for joining our earnings presentation for quarter 2 fiscal '23 today. I'll start with a quick 15 to 20 minute presentation on quarter 2 and then we'll open the floor for questions.

For those of you who've joined fresh, if we can move to the first slide, just a quick refresh on Delhivery. The aim of Delhivery is to build the operating system for commerce in India, which means we essentially provide the logistics infrastructure technology and services that enable buyers and sellers to transact with each other in the physical world.

These buyers and sellers who are customers of Delhivery could be businesses transacting with businesses, businesses transacting with consumers, or consumers transacting with consumers within India, or from India to the world, or the world to India.

In terms of a quick snapshot of quarter 2, Delhivery continues to be India's largest integrated logistics platform. We recorded revenues of about 1,796 crores in quarter 2 of financial '23, which represents a 9.3% year-on-year growth rate over quarter 2 in financial year '22. Adjusted EBITDA margins have improved to negative 7%, which is an improvement of about 547 basis points from quarter 1 financial '23.

We delivered about 161 million packages in our express delivery network, which represents a 19% growth year-on-year from quarter 2 in financial '22. We remain the leading independent express player in India and have delivered close to about 1.7 billion packages since our inception.

Our Part truckload business continues to be one of the largest PTL businesses in India. We recorded 20% quarter-on-quarter growth from quarter 1 when we had seen our decline in volumes vs. quarter 4 due to our integration with SpotOn. We've delivered close to about 2.7 million tons since our inception in financial '19.

We continue to be one of the largest players from an infrastructure and reach standpoint across the country. We operate close to about 18.5 million square feet of logistics infrastructure, which includes trucking terminals, automated sortation centers and gateways, freight service stations, collection points and delivery centers. Over 28,000 customers depend on Delhivery's network for a variety of different services.

Over half our revenue today comes from customers who use two or more of our services; and we cover 18,454 pin codes across the country of India, based on the definition of pin codes provided by the Indian Post.

In terms of a quick snapshot on operating metrics, our pin code reach has increased to 18,454 pin codes at the end of quarter 2, as I mentioned. We continue to service 220 countries from both an imports and an exports standpoint, through our global partnership with FedEx and Aramex. Over 28,000 customers, as I mentioned, use one or more of Delhivery's various services.

From an infrastructure standpoint we operate close to about 18.5 million square feet of infrastructure across the country. The key change from financial '22 and from quarter 1 financial '23 to quarter 2, is that our integration with SpotOn and consolidation of infrastructure between Delhivery and SpotOn, as we have mentioned, is underway and continues as per plan.

We've seen a reduction in total number of gateways from 123 at the end of financial '22 to 96 as of quarter 2 fiscal '23; and a reduction in the total freight service centers that we operated as independent networks, from 267 as of financial '22 to 188 as of quarter 2 financial '23. These are the two lines that are highlighted in red on your screen.

And the team size overall has reduced from a total team size of 60,373 to close to about 56,500 people as of quarter 2 fiscal '23. We expect this integration and the benefits of consolidation to continue through the rest of this financial year.

Moving to the next slide, some highlights since the last earnings call. Our Express Parcel business continues to remain robust. We remain the largest independent express logistics company in India. We saw 19% growth in volumes year-on-year in quarter 2 of this year. But more importantly, in the festive season towards the end of the quarter, we saw an 80% growth in festive and daily volumes versus the rest of the quarter.

We continue to have a unique capability and a dominant position in fulfillment of Heavy Goods, with a 30% growth in volume over the previous quarter in quarter 1. We also continue to regain market share in the Part Truckload business post our integration with SpotOn. We are today one of the largest PTL freight networks in the country. We saw a 20% growth in volumes in quarter 2 compared to quarter 1.

More importantly, network service levels have remained stable across all business lines and above 90% as clients measure us. The integration issues and operational issues that sprang from our integration with SpotOn in quarter 1 have been conclusively resolved as of quarter 2. And the network footprint rationalization is underway as per plan and as you can see in the numbers I've shared earlier.

While our core businesses which are Express and PTL continue to maintain position and grow rapidly, we're also seeing momentum across our newer businesses. Our Supply Chain Services business and our Full Truckload business have shown significant growth since the same quarter last year. Client acquisition momentum in the SCS business continues to be robust with large enterprises trusting us to run their entire supply chain operations.

And we continue to also see strong growth in our cross-border, express and freight businesses, despite a global slowdown and a decline in air and ocean freight yields.

A quick snapshot of what volumes in the Express business look like. This represents three-day average pickup volumes over the last quarter, July-August-September. As you can see towards the end of September, we saw a seasonal spike in volumes as part of the e-commerce sales season. This spike was about 2.3x of quarter 2 financial '22 and 1.9x of quarter 2 financial '23, the average volumes that we saw prior to the peak. We expect to continue to see growth in quarter 3 and some growth in quarter 4 as well.

In terms of financial performance, as you can see on the bars on the left, revenues from services have grown from Rs 1,644 crores in quarter 2 fiscal '22 to Rs 1,796 crores, which is a growth of about 9% year on year. Express and PTL continue to be the dominant revenue lines, together following close to 79% of revenues in quarter 2. And on newer businesses which have grown rapidly, continue to form 21% of our overall revenues.

The bars on the top right represent the Express business. We've seen a 17% growth in revenues year on year, from Rs 960 crores in quarter 2 of financial '22 to Rs 1,125 crores in quarter 2 fiscal '23, and a 19% growth in volumes from quarter 2 fiscal '22 to quarter 2 fiscal '23.

The PTL business has grown from quarter 1 financial '23, which is when we faced operational issues due to the integration of SpotOn. However, we've grown on the back of improved service levels from Rs 259 crores in PTL revenues to Rs 293 crores in quarter 2 fiscal '23. And we've also seen an increase in volumes from 239,000 metric tons of freight, to 286,000 metric tons of freight in quarter 2 fiscal '23.

Our newer businesses, as I mentioned, continue to do well. Supply Chain Services has more than doubled the number of active engagements versus September '21, which is the same time last year. We continue to win accounts across a number of industries, which include Quick Commerce, Baby Products, the Auto Industry, Electric Vehicles, Agri Tools.

We have leading enterprises who work with us across a number of verticals already, which include Auto, Consumer Durables, Consumer Electronics, FMCG, and Industrial Products Companies across India.

Our Truckload Services platform has also nearly doubled from the same time last year. We continue to add new accounts across a variety of different verticals. The key ones, obviously, being Pharmaceuticals, Paints, the Tyre and Auto Industry and Consumer Electronics. More importantly, we are seeing product-led growth in this business this year, as a significant portion of truck placement and supply is now transacting digitally via our supply side applications and via our marketplace, which reduces both the cost of Supply and Goods pricing transparency and improves service quality in the Truckload exchange.

And finally on the Cross-Border side, we continue to gain customers both for our Express and our Freight businesses, independently and through our partnership with FedEx. We won key accounts across industries, such as Industrial Engineering, Electrical Equipment, Renewables and FMCG.

We've also launched a new key project which integrates our domestic PTL and FTL trucking solutions with international ocean and air freight solutions, essentially providing a complete door-to-door delivery service. This is targeted at critical sectors like Pharma, Auto and Engineering. We've a strong position established on intra-Asia air freight and also our FedEx partnership continues to scale for Express Parcel exports.

In terms of revenues, as I mentioned, newer businesses continue to contribute a meaningful portion of our revenue. They are today about 21% of total revenue. The FTL business has grown about 90% year-on-year from quarter 2 fiscal '22 to fiscal '23. Supply Chain Services has grown 60% from Rs 112 crores in quarter 2 fiscal '22 to about Rs 180 crores in fiscal '23. And Cross-Border has grown about 33% from quarter 2 fiscal '22 from Rs 80 crores to about Rs 100 crores.

The decline from quarter 1 to quarter 2 in the FTL and Supply Chain Services business is a reflection of seasonality in our underlying customers' businesses.

Now while revenues have grown, more importantly, economics have improved sharply in quarter 2, compared to quarter 1. As we discussed on our last earnings all, quarter 1 earnings were affected by our integration with SpotOn, where we continued to run a relatively underutilized network to allow service to recover and to settle claims with customers.

Service EBITDA, however, for quarter 2 stands at Rs 86 crores and Service EBITDA margins have improved from -0.3% in quarter 1 fiscal '23 to nearly 5% in quarter 2 fiscal '23, which is a strong reflection of the massive underlying operating leverage in the combined network between delivery and SpotOn. Overall, at an adjusted EBITDA level, this has improved from Rs -217 crores in quarter 1 fiscal '23 to Rs -125 crores in quarter 2 fiscal '23.

I think the important thing for us to note is that we are pleased to see that post-integration of the Delhivery and SpotOn networks, the operating leverages that existed in a pre-integrated Delhivery standalone network continue in the combined network, as we've integrated successfully.

The key driver of the movement in adjusted EBITDA, as I've mentioned, is essentially the massive incremental gross margins that exist in our transportation business. Quarter 1 fiscal '23 adjusted EBITDA stood at Rs -217 crores. Of this, Rs 46 crores that we've mentioned in our last earnings call was a one-time integration expense related to provisions and vendor payments as part of the SpotOn integration. So excluding that, quarter 1 fiscal '23 adjusted EBITDA stood at Rs -171 crores.

The incremental revenue and transportation generated in quarter 2, which includes both eCommerce, Express and PTL, stands at Rs 107 crores and the incremental gross profit in our transportation business stands at Rs 53 crores, which gives us an incremental gross margin across transportation of approximately 50%. And as I've mentioned, it reflects the massive operating leverage that exists in the combined Delhivery and SpotOn network.

This is what has led to A, total improvement in adjusted EBITDA, from Rs -217 crores in quarter 1, to Rs -125 crores in quarter 2. And as volumes continue to come into the Delhivery network, from here on we expect incremental gross margins to behave predictably and profitability to continue to improve.

This is just a quick graphical representation of the same point. In quarter 1 fiscal '23 adjusted EBITDA had dropped a -12.5% owing to one-time costs and integration costs. This has improved to -7%. As volumes continue to come into the network, we expect adjusted EBITDAs to continue to improve.

As a quick bridge, if you focus on the column in the middle, which is quarter 2 fiscal '23, total revenue from customers increased to Rs 1,796 crores, compared to Rs 1,746 crores in quarter 1 fiscal '23. More importantly, total expenses, total absolute expenses reduced from Rs 2,206 crores in quarter 1 to Rs 2,158 crores in quarter 2.

The major adjustment is simply for non-cash recurring costs, which add up to Rs 221 crores. That includes Rs 142 crores of depreciation and amortization expenses and Rs 79 crores of ESOP expenses, effectively giving us an adjusted EBITDA of Rs -125 crores, a negative 7%.

In terms of cash PAT, the picture is stronger. Cash PAT for quarter 1 stood at -10.4%, as of quarter 2 fiscal '23, adjusted cash PAT has improved to -1.7%, with an adjusted cash PAT loss of Rs 32 crores in this period. The cash PAT bridge looks exactly the same as the adjusted EBITDA bridge. Losses after tax for quarter 2 fiscal '23 stood at Rs -254 crores, compared to Rs -400 crores for quarter 1 and Rs -600 crores for the same quarter last year.

The major adjustment, again, is for non-cash recurring costs, which are depreciation and amortization and ESOP expenses. The adjusted cash PAT therefore stands at Rs -32 crores, or -1.7%.

That covers the presentation. In terms of a quick summary, this quarter has been one of consolidation for Delhivery. We continue to be, as I've mentioned, the leading player, the leading independent express player in the country. We've delivered over 161 million packages in the last quarter; and we continue to maintain our strong market position.

The PTL business, this was a quarter of recovery. Volumes have grown by 20% compared to quarter 1. Service quality has improved and integration issues are now behind us. We've gained market share and we still are one of the largest PTL players in the country. Expect to continue to gain share.

Most importantly from an economics standpoint, Service EBITDA has recovered sharply in quarter 2 to 4.8%. Our incremental gross margins are at 50% and the operating leverage in the combined business post-integration remains intact. With industry-leading service quality with the size of our network and our reach, we will continue to evaluate the strategic option to use our incremental gross margin to gain share across all the industries that we operate in.

And finally, our newer businesses continue to see strong demand from customers across various industries. We've seen massive year-on-year growth across Truckload, Supply Chain Services and the Cross-Border businesses.

We remain optimistic about the rest of the financial year and financial year '24. With that I'll pause and hand back to the Citi team for questions. Thank you.

Moderator: Thanks Sahil. As a reminder, participants can use a raised-hand feature to ask a question. We'll take the first question from Mukesh Saraf of Spark Capital. Operator, kindly unmute their line.

Mukesh: Good evening and thank you for the opportunity. My first question is on the Express Parcel growth of 19% this quarter. Could you indicate some sense on how the industry has been? Have we maintained market share or have we gained market share? Or which range in market share are we there on the Express Parcel?

Sahil: Thanks Mukesh. We believe that we have continued to retain the market share that we had as of last year. I think our position as we look at each of our individual client accounts remains intact. Depending on which clients, obviously see different levels of growth over the year, our consolidated market share position may change accordingly. We obviously have larger share with some customers and less share of wallet with some customers.

But overall, our competitive position on the Express industry remains intact. We continue to have the same costs and technology advantages that we had as of last year, and continue to exercise that to defend market share.

Mukesh: Alright, would you be able to comment on say a large eCommerce platform such as Meesho which have on media been kind of commenting that that growth has been significant, or much higher maybe than say 40-50% kind of number? Any wallet share shifts in such large accounts?

Sahil: None that we have seen. We continue to maintain market share with each of our individual accounts. And overall, Mukesh as I've mentioned, we saw massive growth in volumes with seasonality.

Mukesh: Right. Thanks for that. And secondly on the PTL business, we'll see on average you've done probably about 3,200 tons a day. And last year same quarter you were about 4.5 thousand tons and in the fourth quarter you were up towards the 5 thousand tons. Could you give some sense on what rate we exited second quarter and probably some indication of how October, November have been?

Sahil: So we're currently at a rate which is close to about 3400 to 3600 metric tons of freight a day. I should add some context over here. On the PTL business, our first vote of call was really stabilizing service issues post the integration on quarter 1. I think we successfully navigated better in quarter 2 and service levels in fact, are better than they were in a pre-integration world. Not just in terms of network speed and reach, but also in terms of quality metrics, which includes shortage deliveries, damage deliveries and so on. So this has actually been a pretty good quarter from the service level standpoint.

Also, the other sort of exercise that we undertook post-integration was to take a look at all of the individual client accounts that we had, both with Delhivery and with SpotOn. We evaluate accounts which were unprofitable for Delhivery and SpotOn and either we renegotiate pricing or eventually stop services. And also to get out of certain accounts where we need to provide highly bespoke services, where it made more sense for us to focus on a standard PTL product.

Mukesh: Sure. And just last one if I may squeeze. We did get some sense from the industry participants that some of the large eCommerce platforms are looking to split the services across first mile, mid mile and last mile between different vendors, while Delhivery does provide end-to-end logistics. Do you think this is any way is happening and will this impact Delhivery's positioning in the market?

Sahil: Not at all. Because when we establish the fact that we are the lowest cost operator in this space, we are not just the lowest cost when bundled, we are also the lowest cost at each individual leg of the transaction. Our first-mile cost is the lowest, our mid-mile cost is the lowest, and our last-mile cost is the lowest. So this is actually a structural advantage. And I think it makes more sense to outsource to Delhivery. Essentially what I'm saying is it's impossible to unbundle Delhivery.

Mukesh: Right. Got that. Thanks a lot Sahil. I'll get back in the queue.

Sahil: Thank you.

Moderator: The next question is from Gaurav from Morgan Stanley. Please go ahead.

Gaurav: Hi, thank you for taking my question. First question again is on the Express Parcel business. How should we think about recovery from here, going by the commentary you made on the festive season it appears that we're likely to be under 20% growth for the next two quarters. So how should we think about transition from 20% number to like 30% like we have been doing sustainably for last several, several years? How should we think about that?

Sahil: I think in the Express business it's a pretty simple answer. We monitor our share of wallet with every single account that we work with. We also manage our overall client portfolio to make sure we're not unnecessarily concentrated with any single account. We will maintain our share of wallet with every single account that we have. And depending on the underlying growth that each of these accounts will see in the market, our consolidated market share will change as a consequence of that.

The other important thing to note is that ultimately we are the highest quality network. We are the largest network from a reach standpoint. And we also have the lowest cost structure. Our incremental gross margins I've shared with you. And so our ability to use our gross margins to protect our share if we have to is also in some senses unlimited. So that's sort of the way I would think about it. We will essentially maintain our leadership in this space.

Gaurav: Got it. Secondly…

Sandeep: If I can add, we will periodically go back and look at what we believe is the market size and scale and what our share is with each player. And obviously we triangulate it through various sources. It's not something that is given to us, or we don't have a Nielsen in our industry as such.

And as Sahil said, I think we will make adjustments. And if we feel like that there's any account where we feel like our share position has changed, then we will actually do what we need to do to defend our share under any circumstance.

Gaurav: That's very helpful. You had given a number a couple of quarters back, I think that your market share in the overall Express Parcel business is around 21 to 22% or even higher than that. Where do we stand as of now as per your broad estimate?

Sahil: Not significantly changed at all.

Gaurav: Got it. Last question on the 50% incremental gross margin. Should we think about going forward, that kind of a ratio holding up or that kind of a correlation holding up? Is it also the fact that we created a lot of capacity this year and that is why the incremental gross margin is very high? So how should we think about the more like a sustainable incremental gross margin in this business of transportation?

Sahil: That's actually a very good question, Gaurav. In fact, today as I look at the network, our incremental gross margins could have been higher, which means we continue to carry a little bit of capacity that is underutilized in different segments. Obviously when you look at capacity, it's a complicated sort of decision because there are different points of capacity.

As an example, the automated sort stations continue to be quite heavily capacity utilized. The hubs and the line haul network are still running slightly underutilized. And the last-mile network can probably absorb another 30% volumes overall. So the capacity answer is sort of split across different legs for Delhivery.

So one, I think our overall incremental gross margins could increase from here. The second is, this is based on historical precedent. Obviously as we start getting the capacity utilizations of close to 85 to 90% and have to reinvest, we see incremental gross margins at that point coming down to maybe about 45% or so. But there's basically massive underlying operating leverage in our business.

Q: That's very helpful. Thank you so much.

Moderator: The next question is from Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit: Thank you for taking my question. My first question is when I look at the slide where you talk about your key operating metrics; and between Q1 and Q2 we've seen some reduction in capacity. Now while this is clearly for better integration of SpotOn, just want to understand, does it in any way also indicate our thoughts about growth? Because for a company which is in a high growth sector to actually cut capacity at this stage, how should one look at this in terms of growth for us say over the next few quarters going forward? That would be my question, number one.

Sahil: Sure. You should not view this in any way as compromising our estimates of growth going forward. This is the number of freight service centers that we run. If you look at the overall infrastructure that we run as of the end of financial '22, we had 18.15 million square feet of infrastructure. That has risen 18.46 as of quarter 2.

On a growth team continuously re-evaluates the structure of the underlying network and decides what is best for us to consolidate. Let me give you an example Pulkit. As an example, even today, because of Delhivery and SpotOn having independent hubs in Pune, we continue to run two hubs in Pune. Over the next 18 months, those two hubs will be consolidated into a single hub.

Now while that may not reduce our overall infrastructure footprint, because we may continue to operate the same space, what it does is bring massive efficiencies to the operation in Pune. Because essentially we can eliminate several of the costs that we have to duplicate between the two facilities. And also the inter-hub connections that we have to run at this point, because we run two facilities.

So essentially, all of this consolidation is to drive better efficiency. As our volumes go up, we make automated decisions on how to expand the network and nothing will change on that front.

Pulkit: That's useful. My second question is on competition. I think somebody did touch upon this. Whether it is Flipkart or Amazon who are talking about doing logistics for third party, Meesho in an interview mentioned that they don't look at this as a cost center. It's a profit center.

I mean just wanted to get your thoughts that in the last say six odd months, do you think that the competition metrics have changed for us in any way? Or you think this was something which was anyways in works and really doesn't change much? Because I think it has implications in terms of our ASPs and that's why I wanted to get a better understanding of this aspect.

Sahil: Certainly. I think it's a very topical question. Let me begin with competition. I think the state of competition that you refer to is a state of competition that has existed for several years. Its' been pretty much the same players arguing for pretty much the same strategies for nearly half a decade now.

And so in terms of either competitive intensity or in terms of sort of various competitor player strategies, nothing has fundamentally changed in the market. The Express market is a competitive market. But to be clear, it is not determined purely by one factor, which is price. It is determined by the reach of the network. It is determined by the quality of delivery and the speed of delivery. There are several auxiliary service metrics that customers use to decide.

And finally, with all of these being a hygiene factor, there's the question of price. As we've mentioned, Delhivery has a strategic competitive advantage, which is that our cost structure is significantly lower than either our listed or our unlisted peers. And certainly lower than captive arms of eCommerce companies.

More importantly, we're actually designed to service third parties, as opposed to being fundamentally designed to serve first parties and then trying to externalize. So I think nothing weakens our competitive advantages in any way. Different players obviously will try different strategies over the next couple of years. It's a large market.

But from our standpoint, we have the lead in cost structure. We have a massive balance sheet. We have a fully invested-in network and an experienced team. So in that regard, for us competitive intensity is something that we watch, but not something that gives us any sleepless nights.

Pulkit: Good point. Maybe I'll take the liberty of asking one more. Can you give us a sense of the PTL freight tonnage. When should we expect this to get back above the 400,000 quarterly run rate?

Sahil: Certainly. I think on PTL, as I mentioned, the first and most important thing for us to do was to put the operational issues of the SpotOn integration conclusively behind us. And as I mentioned, I think we're quite happy with where we are now. Overall, if I look at service quality across the network, which includes both service speed as well as quality metrics, we are trending at levels that are ahead of where we were even pre-integration in quarter 3 and quarter 4 of last year. That really was step number one.

Step number two for us was then to take a long hard look at all of the different customers that both Delhivery and SpotOn serviced. While it would have been easy for us to simply show volume growth, I think we went ahead and looked at each of the accounts individually, looked at accounts which made sense for us from a gross margin and an EBITDA standpoint.

And also looked at the kinds of loads that we were transacting and whether they required any special services or any special handling that doesn't necessarily fit well into the Delhivery scheme of things.

And I think if you think about it, we took a leaf out of the page of Old Dominion and studied it quite carefully. And that's going to be our approach going forward. So internally, a target for us right now is not immediately to figure out how to get to a specific volume number, but to get the unit economics to where we need them to be.

As I've mentioned, we are now within a sharp recovery to 4.8% in service EBITDA. We continue to grow that over the next couple of quarters. Be quite selective about the clients that we onboard and make sure we continue to operate with the same service quality that we're at right now.

Pulkit: Good point. Thank you so much Sahil for those answers.

Moderator: Thank you. We'll take the next question from Aditya Mongia from Kotak Securities.

Aditya: Thank you for the opportunity. The first question that I had was more linked to the Part Truckload business. Now on a QoQ basis, it seems as if there has been some reduction on the per tonne revenue, or the yield number. Just wanted to get a sense of whether we today are starting to offer more discounts which will become lesser over time or is that something else which is maybe more seasonal, associated with this QoQ movement?

Sahil: No, so we are not offering any additional discounts. The optical change in the yield that you can see per kg is due to one, there is an Ind-AS adjustment that we have made. The second is that first, SpotOn earlier, a certain percentage of the revenue was being recognized on pickup volumes. Delhivery, however, operates on a conservative approach where we recognize based on closures. And that has also led to a change in the overall yields.

I think as you see quarter 3 and beyond, you will see yields normalize to where they were in the quarter 1 timeframe, which is somewhere between 10 and 11 rupees a kilogram.

Aditya: Sure, that clarifies. And the second question that I had was on the Express parcel segment. Now as both of us understand there is a moderation in the industry growth, maybe from high 20s to high teens in this point of time. I wanted to get a sense of how much of this would, in your opinion, be more cyclical in nature and how much of it, in your opinion, could be actually structural from here on?

Just trying to get a sense of when things normalize. Will we completely go back to where they were? Or will there be a middle ground achieved?

Sahil: I think when you look at the underlying market for eCommerce in India sort of over the medium or long arc of time, the underlying growth in eCommerce volumes is undeniable. I think the reason why growth in this year perhaps looks moderated when viewed externally is really because a lot of growth was pulled forward during the COVID period. And this is a sort of growth that otherwise would naturally have manifested later.

I think the endpoint for eCommerce remains pretty much exactly the same. It is a growing convenience category. We continue to see penetration in tier 2, tier 3, tier 4 cities and beyond. As an example, our Heavy Goods business which is seeing a 30% growth from quarter 1 to quarter 2 represents sort of a pretty interesting and widening array of categories that are available online.

Now whether a specific quarter or a specific year in eCommerce will be distorted, like COVID, as an example, where eCommerce companies saw 40/50% growth rates, or a year like this year where Shopee has exited the market and growth therefore looks somewhat moderated or muted.

I think overall, our view is that the structural shift to eCommerce will remain intact. More importantly, from our standpoint, it is somewhat irrelevant because we will continue to maintain share with all of the accounts that we have. And as I mentioned, our structural cost advantages are not dependent merely on scale. They're not dependent on Delhivery growing at 30% a year.

The underlying cost advantages that we have make us the most efficient player at 161 million packages a quarter. That will continue whether we are doing 161 million packages, 200 million packages or 140 million packages, whatever, going forward.

And so from our standpoint, irrespective of how the growth curve pans out in the short term, in the long term our competitive advantages remain intact.

Aditya: Just one last question from my side…

Sandeep: I'm sorry. Aditya, if I could just add on top of that, Sandeep here.

Aditya: Sure, sure.

Sandeep: If you go back and look at eCommerce over the last 11, 12 years, you will find that this story has played out before, because you've had periods where the long term trajectory continues to hold. But you've had periods where when discounting -- for the first time when aggressive discounting became sort of less popular, you had a couple of years of soft and then came back, even became a truly a convenience category.

So I think you'll have those cycles. In today's funding environment you'll have some cycles on individual players feeling some pressure and things like that. But as Sahil said, as a channel the penetration is still so low of eCommerce. And there's no reason to believe that the long term growth in eCommerce should be any different.

Aditya: Understood. But just one last question from my side. And thanks Sandeep for that part. The question is more on this 50% gross margin thesis that one is thinking through. If I kind of extrapolate this argument from your current revenue piece and am going to more towards let's say 3Q/4Q, it seems as if that can help you at an adjusted EBITDA margin level lead to high single digit levels. Is this something that you believe can happen, let's say by the end of the fourth quarter, that the company starts reporting 10%, at least for that kind of 23, 24, 2500 kind of type top-line? A decent marked improvement in the adjusted EBITDA margin?

Sahil: Actually, can I ask you to please go to the adjusted EBIDTA slide?

Sahil: So this is just a quick snapshot of how our adjusted EBITDA was trending prior to this and services EBITDA obviously before this. So one is we purely know how to get to where we were in quarter 3 and quarter 4, as you've mentioned. Because there's sort of a sense of predictability because the incremental gross margin is at 50%. As volumes come in both in the Express and the PTL business, we expect overall that the company's adjusted EBITDA will continue to improve.

So far in quarter 3 I think we're quite satisfied with where we are; and we expect this to continue. But when will we get to exactly 10% adjusted EBITDA I think is a function of the choices we make in terms of the customers we onboard in PTL and how soon we bring PTL volumes back. But the important thing to note I think is that it's a relatively predictable business from here on.

Aditya: Good, if I have more questions I'll come back into the queue. Thank you.

Moderator: We'll take the next question from Alok Deshpande. Alok, you can proceed with your question. Yeah.

Alok: Yeah, okay. So I just wanted to refer to a couple of statements that you had mentioned in your Q2 business update, which had come out a few days back. So one was you mentioned that while the festive season sale surge and shipment volume will spill over to Q3, we anticipate moderate growth in shipment volumes for the rest of the financial year.

Now this moderate growth that we are talking about, is it more because of how much higher base in the H2 of last year? Or is it a general sequential growth which you think will be quite moderate in nature? So I was just…

Sahil: Certainly. So I think Alok, the big change, that's an important question, actually. We should have called it out. The big change, obviously, when you look at H2 of last year is that H2 volumes were somewhat distorted by the presence of Shopee in the market. And so overall volumes, not just for Delhivery, but overall for the eCommerce industry were significantly higher.

And with Shopee disappearing, while some of that volume has obviously been retained and has gotten spread out across other eCommerce companies, some of that volume has basically simply disappeared. And so that's really the reason.

I think if you look at our growth in volumes, overall we've seen about a 6, 7% growth in quarter 2 over quarter 1. We would expect a similar range or maybe slightly higher or slightly lower than that in quarter 3 over quarter 2. And overall for the year that falls somewhere in between sort of an 18 to 30% kind of growth rate overall.

Alok: When you say 18 to 20%, that is including Shopee last year, right? Or are you saying like to like?

Sahil: Including Shopee last year overall.

Alok: Understood. And my second question was regarding PTL. You mentioned that you're currently doing about 3, 3.5 thousand odd sort of tons a day. As this number sort of starts creeping up towards slightly higher levels in Q4 or so, do you think that at an overall level at a group level, the adjusted EBITDA can go in green, based on this?

Sahil: Yes, of course. Absolutely. See, it's an extremely important component of our business. When we say that we run an integrated network, that means our mid mile and our linehaul are sort of for them, PTL and Express are indistinguishable. And therefore growth and volumes and either of the two obviously improves unit economics in both, it improves utilization at the hubs; it improves utilization of the vehicles that we're transacting.

More importantly, it allows us to make one of the big strategic shifts that only integrated players can really pull off, which is a shift away from more inefficient truck sizes to far more efficient truck sizes that we use across our network. And so, in fact, the faster PTL volumes recover, the better it is obviously for our mid mile utilization.

Alok: Sure, sure. Thanks Sahil for that. That is very helpful. Thanks a lot.

Moderator: We'll take the next question from Sachin Dixit, Sachin, go ahead.

Sachin: Hey hi. Congratulations on the results. I had a quick question with regards to the steady state service EBITA margins. While I do understand that Delhivery is decently dominant in terms of the Express Parcel business and as well as the PTL business being growing since the integration, but it remains a cost line item for most of the clients. And who might not be happy with giving you an insane amount of margins. So where do you think the service EBITDA margins stabilize and how is the journey doing?

Sahil: Sachin, actually the point that you make is precisely the point that we believe is our strategic advantage, which is that this is a cost for our customers. Our objective is not just to state that we're building the highest quality transportation player in India. We're also building the lowest cost transportation player in India. And in the

Express Parcel industry I think if you were to do a benchmarking, you would find that we have the lowest cost structure out of our competitors.

And so the fact that our customers are extremely price sensitive is, in fact, a competitive advantage for Delhivery. And as I've mentioned, with our incremental gross margins, our ability to use our gross margins to drive up market share in the underlying industries that we're in is massive. We have done this in the Express Parcel space. We evaluate every one of our customer contracts continuously and make sure efficiencies are passed on to them. And essentially we get rewarded for that in the form of excess market share.

So the risk that you're pointing out, we actually think of as the fundamental opportunity at Delhivery. Because when you think about it, direct costs of logistics in India have to reduce. And only large integrated players would have the ability to reduce it, which is sort of what the core of our business is all about.

In terms of service EBITDA margins, as I mentioned, if you were to look at the overall incremental margins that we're generating, it is possible to actually model out what margins for Delhivery will look like going forward. In our experience so far, the service EBITDA margins for our transportation businesses can reach levels of close to about 17 to 20%, based on the utilization of the network, without service degradation.

Obviously, as we continue to introduce more trailers, as we continue to introduce more automation across our hubs, there is the opportunity to fundamentally disrupt that cost structure further as well.

Sachin: Sure, thank you. And can you also give some understanding on how the Supply Chain Services business is going on and how are you acquiring customers there?

Sahil: Sure. In the Supply Chain Services business essentially it is an end-to-end fulfillment services business that we run. Where, as an example, one of India's large consumer durables players came to us and said, look, we want to focus on manufacturing and running sort of our retail footprint. Whereas we want you to run the entire supply chain. So we handle warehousing; we handle inventory management; we handle primary distribution, secondary distribution across the country for them.

So the typical engagement will include warehousing, Full Truck load Freight, Part Truckload Freight and Express delivery as well. The margins that we see in that business, or all the transportation businesses, are equal to or higher than the margins that we see on the transportation businesses standalone.

And then on warehousing, we take a strategic call account by account as to what kind of margins or pricing we want to offer the customers. Typically these are long-term contracts to run either entire regions or the entire supply chain for the customers that we have.

The reason customers choose us is very simple. One is the underlying philosophy of our business model is it allows our customers to variablize the supply chain costs. And obviously, at the same time have access to the highest quality transportation partner in the country. And to centralize procurement of logistics with a single partner. So you don't need to run multiple sort of 40/50 different partners helping you with either trucking or with express delivery, or with warehousing.

So it brings predictability; it brings transparency; it brings speed. Our focus, obviously, is on sectors like, for instance, where obviously supply chain complexity is high. So obviously eCommerce is one of them, consumer durables, consumer electronics, auto and auto spare parts, FMCG, pharma, some parts of industrial goods. These are sort of the industries that we remain highly focused on.

Sandeep: If I may, and what happened over the last six months is that the number of industries that we serve has widened. The number of use cases that we have proven out that this model works and actually have increased. And so we now actually have a much larger scope that we can actually go after in the market and more success examples that we can share with the customers.

The other thing that you should also note is that the Supply Chain Services revenue as we report it includes a decent chunk of Part Truckload and Full Truckload, not just warehousing. We just don't double count it. It is actually reported within Supply Chain Services.

So our underlying Part Truckload volume that we probably handle is actually significantly higher, as well as the underlying Full Truckload volume.

Sachin: That sounds perfect. Just one final question on this ONDC that the government is pushing. What are Delhivery's plans to participate or not participate? How do you think of? Just last question.

Sahil: We are discussing integration with ONDC. And I think we are basically well being together and will be a logistics partner of choice for all of the sellers on the ONDC platform. But as of now, I think the platform itself is still maturing; and as it gains traction, I think some of our plans with regards to ONDC will become a little clearer.

From our standpoint though, our services are easily accessible. We'll integrate with ONDC and if it succeeds, we're happy to be sort of big partners.

Kapil: We have already submitted our application to ONDC and as Sahil mentioned, as the platforms picks up, you'll see the app on the platform very soon.

Sachin: Got it, thank you.

Moderator: The next question is from Abhishek Ghosh.

Abhishek: Hi, am I audible?

Sahil: Yes Abhishek.

Moderator: Yes you are.

Abhishek: Hi, thanks for the opportunity. And just since we are on the Supply Chain business, I think just one observation. QoQ we have seen a decline in revenues, about a miss about 20/25 odd percent. Any change in accounting? Because we usually thought this is a seasonably strong quarter. How should we look at it, any thoughts there?

Sahil: Yeah sure. It's basically just underlying seasonality for a couple of our customers for whom quarter 2 is not historically sort of a strong quarter. As an example, in consumer durables, one of our customers has significant seasonality in quarter 2. And that's what has affected overall revenues for the quarter. But that will rebound in quarter 3 and quarter 4 as ship outs increase.

No change in accounting standards. It's an underlying sort of reflection of the customer mix that we have.

Abhishek: Is dependence on one particular client a little higher? Over a period should we see this thing going up because the market opportunity is quite high and your market shares are pretty low. So how should one look at it?

Sahil: Obviously. That's actually the right observation. We do expect over time the impact of this seasonality from a single customer to reduce. I think the other thing and also Supply Chain Services is that revenue, while accounts begin, the full sort of impact of that new growth takes typically anywhere from about two to six months to reflect. Because that's sort of the period that we take to stabilize operations, to grow operations across various different warehouses.

Because typically these customers will either be shifting from in-house operations or from a different third-partner to Delhivery. So it takes a little bit of time for these accounts to reach their full potential. Even the set up time for us could be anywhere from sort of 30 to 90 days for different customers.

So I think the growth that we've seen in customer name accounts in quarter 1 and quarter 2. It's hard seeing the revenue impact of that in quarter 3, quarter 4 and beyond.

Abhishek: That's helpful. The other thing is, on the Express Parcel business, while there is just about a percent or so increase in realization in the current quarter, how should one read this? Are we toward the end of the cost benefit being passed on, or was there a product mix impact this quarter? Any thoughts on what realization shipment as well as the Express Parcel business is concerned?

Sahil: Yes, sure. See the realization overall is a function of basically towards three different things. One is it's a function of the customer mix. The second is it's a function of the distances that we are shipping. The third is, it's a function of the COD versus pre-pay ratio and sort of the extent of returns that the network is handling, and the speed choices that various customers make.

There's no underlying change in our pricing philosophy in quarter 2 versus quarter 1. That said, we evaluate every customer account differently. We have target gross margins and target EBITDA margins for every account that we operate. And as we continue to gain efficiency, we proactively pass those benefits on to our customers. One of our stated strategies is to commoditize the space that we're in. We believe that every customer should have access to low-cost, high-quality logistics. That's the foundational idea of Delhivery. And we will continue to sort of exercise that judgment with our customers.

In terms of the question about whether we're close to the end of the cost curve, I'd have to say the answer to that is no. Because as I've mentioned, incremental gross margins right now are at 50%. Our belief is that incremental gross margins actually could be higher as utilization of the network continues to improve.

So we're not necessarily at the end of that cost curve. We still have underutilized capacity at the last mile, for example, and in certain sections of our mid mile and hub operations. As volumes scale up, that will get utilized. The other benefit, of course, when running an integrated network is that because our mid mile and our hub operations do not distinguish between PTL Freight and Express, growth in either of those businesses contributes to an improvement in economics in the other.

So as PTL volumes go up, Express becomes more efficient. As Express volumes go up, PTL becomes more efficient, because we're able to run more docks across our hubs. We're able to run larger trucks. We're able to run better frequencies. And we expect that to continue.

So over the next couple of quarters I think we will introduce more tractor-trailers across all of the critical routes. We will increase utilization of the trucks. And as that happens, overall cost, of course, will continue to come down. And at an account-to-account level, we will make the call on how much we want to pass on to our customers.

Abhishek: And just one more question. If you look at the PTL business and it's already visible, you're almost about 20-25% down or maybe a little higher on a number of shipments from the last peak that you had done. Did this end in some business loss because of the integration and other things?

How difficult it is now to get back those customers? And you know the – because somebody would have got that share in the meanwhile. Are you having to discount rates? You mentioned you're not discounting. What are the challenges?

Should we – is there a change in the medium term growth rates for this business, given the volume integration issue? Just some thoughts there, because once a customer goes away, to get him back you have to offer him something extra. Because it's a customer experience. Just from that perspective your thoughts.

Sahil: Absolutely. I think the first thing is we looked at all of the accounts that we currently are active with. And fortunately, accounts representing nearly 90% of our revenue pre integration are active with us and are working with us.

Some of the accounts that are not active with us include retail partners where we felt that the loads that were being tendered into our network were not appropriate for our network. And there are certain customers, like I've mentioned, who continue to operate other parts of their requirements with us, but where we felt that the PTL requirements were not ones that fits with Delhivery network. And we've consciously decided not to continue with some of those accounts.

I think the important thing that customers look for is service quality, which includes not just network speed and reach, but also quality in terms of shortages and damage and potential claims. As I've mentioned, what we're particularly happy about is the fact that service quality as of now is better than we were at pre-integration levels. Which means the integration not only has been conclusively completed, but, in fact, some of the service gains that we expected to see have played out as of now.

Obviously we continue to remain quite watchful, because it's only been a couple of months since the integration has stabilized. But that's the leading indicator of share gain. While customers are price sensitive in this market, I think it is important to recognize that freight as a percentage of value of goods shipped is not very large. And so customers are sensitive to quality of service.

The second thing is that different logistics companies at different points in time are affected by operational constraints. I wish I could sit here and tell you that there are no further operational constraints which will ever affect Delhivery going forward. But as an example, if you happen to build your hub in a part of the Bhiwandi which goes underwater when it rains in Bombay, you are bound to have service issues. And at that point in time, customers will select an alternative.

Customers are also understanding of the fact that they have to shift loads across different logistics partners when various networks have issues in specific locations. That's why they run redundant partners and that's why it's not exactly a winner-take-all market. But it is possible for somebody to build a dominant scale. And that's really what we're going after.

Long answer to your question. No, we don't have to offer discounts to regain customers. Our service quality is what gets us those customers, along with our reach. We're becoming more selective about the kinds of customers we want to admit, to make sure we can maintain that service quality and the margins that we want to generate. And overall I think we are going to seize recovery in this business over the next couple of quarters.

Abhishek: Good Sahil, thank you so much and wish you all the best. Thank you so much.

Sahil: Thank you.

Moderator: The next question is from Abhijit Mitra. Please go ahead.

Abhijit: Hi, am I audible?

Moderator: Yes Abhijit, if you can speak up a bit, please. Thanks.

Abhijit: Yeah, sure, thanks. I have 3 questions. Based on the slide 5, the number of customers dropped by almost 1000-1100 on a QoQ basis. How do you sort of – I mean what are your thoughts on this and how do you see these numbers will likely move ahead? And that was question number one.

Question number two is again on the supply chain slide. Dropping revenues is something which you can understand. But on quarterly basis if we look at revenue/sqft which you have reported, it is down QoQ. Why should square footage under management drop in a supply chain business QoQ? That was the second question.

And third is I think prior to the IPO, there thought process that growth in express parcel is more structured. But what we are seeing now is that the penetration as well as the growth, in US growth is coming down and our market is also showing signals of slowdown so it's all connected? Will you like to consider that was indeed a COVID bump that is coming out of this and globally there's a slowdown sort of in the overall market.

Sahil: Certainly. Thanks Abhijit. Let me sort of answer these very quickly. One is in terms of number of customers, as I mentioned, in the PTL business, specifically. We have become more selective about the various kinds of shippers we allow to move goods through us. I think one of the things that we evaluated as part of the integration was how many different customers were tendering loads that weren't necessarily transit worthy. Or which didn't necessarily fit the delivery Express, PTL product form either a sort of handling standpoint, operational standpoint or from a margin standpoint.

And so it's a sort of exercise that we undertake on a regular basis. As a standalone company, Delhivery will do this anyway every quarter. I think the first time we did it, once we had integrated Delhivery and SpotOn, post the integration, it was in quarter 1; and therefore, there were accounts that we decided proactively that we could not continue. This is a quarterly exercise that we'll continue for the combined business. So not very worried about this at this point.

As I've mentioned, the customers who are active with us represented over 90% of the revenue that we made in the PTL business, as Delhivery and SpotOn separately, pre-integration.

In terms of revenue per square foot in Supply Chain Services, this is also driven by the fact that if ship outs, for instance, happen to be lower in a specific quarter, while the square foot area continues to be active, since we bill only on ship outs, whenever there's a quarter where ship outs happen to be lower, since we aren't booking any revenue, the revenue per square foot in that quarter will appear to be slightly lower.

So I think this is the same seasonality impact that you're seeing. We have maintained the same amount of overall warehousing space. Also on top of that, there are new starts that are built in over here, where it takes a little bit of time for the revenue to come in. So as an example, when you're starting a new warehouse for a customer, typically inventory would start arriving and will take anywhere from sort of 15 days to 60 days to arrive. Whereas billing on outbound will begin with a little bit of a lag or a delay.

So in that sense this isn't something that I think is particularly alarming. And especially if you sort of look at it from as FY20 all the way to quarter 2 FY23 the trend is sort of pretty secular.

Your third question was around eCommerce growth structurally. I think it's a very good question. There are some differences though in dynamics between the US and India. In the US you're fundamentally talking about, first of all, a significantly more penetrated market from an eCommerce standpoint.

I think when you look at India overall, as I've mentioned, with the medium or long arc of time, it's hard to argue that eCommerce will not become a significant portion of consumption. New categories will come in. We do continue to see, by the way, growth in tier 2, tier 3, tier 4 cities and beyond. We also see increasing frequency in the metros.

Like I mentioned, I think this certainly was a bump during the COVID period. There's absolutely no doubt. And if you look at the end-state today in the absence of COVID, perhaps the growth would have looked more uniform over fiscal '20, '21, '22. Instead of which it's sort bunched up in '21, '22, and therefore, looks a little lower in this financial year.

But I don't fundamentally believe that there is a structural alteration in people's desire to purchase online. Or the eCommerce companies' ability to sort of create new categories and bring greater assortment to people. One of the easy ways to look at it is to see sort of the expansion, to some extent, to some of the direct-to-consumer brands and the sort of speed at which these D2C companies have been able to grow.

I think overall, while this year may look bumpy, when looked at overall, the medium time period over the last few years, I think growth in eCommerce has been solid. We don't see any structural reasons for that to not continue.

And the last piece that I would point out is why we are a little more sort of insulated from small periods of no growth in eCommerce is as I mentioned, because of our cost structure. Our competitors struggle with periods of low growth because typically in those periods they do not have the ability to reduce pricing, if they want to continue to grow.

Low growth periods are good for us because, as I mentioned, even at 161 million shipments, we have a profitable Express business and high incrementally gross margins. We have the ability to continue to improve our cost structure. We have the ability to continue to pass those benefits on to customers and gain more market share at that point in time.

So in that sense, we're a little more insulated from any short-term events that happen in eCommerce than anyone else. But again, as I mentioned, structurally I don't think there is any reason to believe that eCommerce is sort of not going to grow quickly in India going forward as well.

Abhijit: Thanks.

Sahil: Thank you Abhijit.

Moderator: Thanks Sahil. We have reached the top of the hour. But we have received a few questions on the chat window. If you can take a couple of them pretty quickly before closing this call. The first one is what has been adjusted while arriving at adjusted EBITDA versus EBITDA?

Sahil: As you can see in the middle column, in quarter 2 fiscal '23 total expenses were at 2,158 crores. This included 221 crores of non-cash recurring costs, which includes depreciation and amortization and ESOP expenses. These are the two costs that are excluded when calculating adjusted EBITDA. The ones that have made their impact. There are obviously minor adjustments which are for finance cost on borrowings and some adjustments due to Ind-As. Rishi, should I just read out the rest of the questions and answer them?

Moderator: Sure. Just this next one is on the ESOP expense roadmap for the next five years, if you can share some color around that.

Sahil: Amit, our CFO is on the call. Amit, would you like to answer this please?

Amit: We have a total of about 43 million ungranted stock options, which will be granted and it will be cost in our PnL over next five to six years. We also have unvested but granted 30.2 million stock options.

Now the stock option accounting is done based on a model where the price of share at the time of grant is taken. And for these 30.2 million shares, we'll just show you the schedule for the cost that is expected over the next four or five years. And for the remaining 43.45 million shares, the costing will be based on the prevalent share price at the time of the grant.

The important thing to note here is that a significant majority of these 43.45 million shares, and the nearly 22.2 million shares, will vest only if the company achieves a stock price of 800 rupees a share, 1,000 rupees a share and 1,200 rupees a share. So that's an important part that you should note.

So the costing which is expected for the options that have already been granted, based on time-based performance, is Rs 469 crores over next five years, including the current year. And for the performance based stock options are just Rs 97 crores over the next five years. So a total of about Rs 566 crores is expected, based on the grants that have happened so far.

Sahil: Thank you Amit. The next question that I can see says what is the timeline for Delhivery to become EBITDA positive? As I've mentioned, the service EBITDA has seen a strong rebound from -0.3% to 4.8%. And adjusted EBITDA has improved from -12.5% to 7%. I think our incremental margins, as I've mentioned, to close to about 50%.

Even if you don't assume an improvement, I think it's quite easy to model out what incremental revenues we'll need to target EBITDA levels, and that are sort of based on volume recovery. My sense is that it's quite easy to model out over the next couple of quarters when we turn EBITDA positive. To some extent, obviously, it depends on how quickly we decide to increase the tap on the LTL side.

Which is linked to the next question which is what is the economic benefit expected from the SpotOn acquisition? And in what timeframe is the full benefit from SpotOn expected to be realized? The economic benefit from the SpotOn acquisition for us was clear, which is we are ultimately building an integrated hub and mid-mile operation, which is shared across our Express and our Part Truckload Freight business. SpotOn was one of the leading players, one of the leading independent players in the PTL Freight business. They were larger than Delhivery, though we were growing faster.

I think bringing these two networks together has given us operational heft, has given us scale. The integration issues of quarter 1 notwithstanding. And more importantly, as I look at our service levels today, and I look at the size of our network today, I think it provides a better service to all of the customers than Delhivery and SpotOn had standalone.

More importantly, as I've mentioned, because we share our hub and mid-mile operations across these two businesses, which is a complicated thing to build, but I think what I've stated, we have built it out. Any increase in volumes in either of these businesses ultimately is accretive to both of them. So as volumes in the Express business increase, we see cost advantages in the PTL business, and also actually, frankly, better speeds.

And as we see volumes increase in the PTL business, we see cost advantages in our Express business and speed improving in our Express business. It also allows us to deploy a larger fleet of tractor-trailer operations across the entire country, which brings down our line-haul cost, improves overall speed of the network; allows us to do more dynamic routing; and therefore, improve customer experience.

The question on timeframe, I think, as I've mentioned, we had intended to begin rationalizing the consolidated footprint of Delhivery and SpotOn by quarter 2. That has already begun, as is reflected in the reduction in overall freight service centers and reduction in gateways that happened in quarter 1. I think that process will continue over the next couple of quarters.

Our intention was to discover the benefits of synergy value between Delhivery and SpotOn, going into the next financial year. And so far I think we're on target for that.

The next question is from Anuja, which is could we comment on plans to use more EV fleets or any other significant ESG initiatives that could be financially material? We already do use electric vehicles, CNG vehicles, and NG vehicles across our network.

In the first and last-mile operations it's actually been reasonably prevalent in different cities for several years now. These are cargo vehicles that we use for pickup and drop-off operations. We have also begun trials of LNG trucks and EVs in our mid-mile operations, which are our long-haul trucks.

Our belief is that in the long run, the benefits of electric vehicles will accrue only by using these for mid-mile operations, as opposed to sort of electric bikes. And so that's where our focus has been. Obviously this de-risks us from increases in fuel costs. And so as these experiments and trials mature, I think we will introduce more and more EVs. So as an example, we're working with Volvo which is one of our trucking partners to experiment with electric vehicles in our mid mile.

From an ESG standpoint, the other area, obviously, is we continue to introduce sort of out across all of our major gateways. That's sort of the other big ESG initiative that we're running internally.

Next question I believe I've already answered, which is context around growth in October. Sorry, growth in October relative to Q2. So volumes are – first of all, just to be clear, the volumes that Delhivery reports in any quarter are based on shipments delivered, not shipments picked up. And so do expect that October will be a high month as well, because a significant number of shipments that were picked up towards the last week of September will be recognized as delivered in October.

I think overall volumes in quarter 3 remain in line with our expectations overall. The festive peak of September was a big high point. And then volumes sort of returned to normal, starting going again towards the end of the year. We don't see any fundamental change in industry structure overall.

How should we think about capex and lease additions going forward, considering the revised growth expectations? I think as I've mentioned, right now we continue to consolidate infrastructure between Delhivery and SpotOn. That remains the major focus. There are still a couple of cities where we continue to run redundant infrastructure because we had lease lock-ins. We will continue to sort of combine those facilities, as an example, like Pune as an example. Similar situation in Chennai and a couple of other places.

From a capex standpoint, I think typically our capex has come in at close to about between 5.5 and 6.5% of revenue. Over time we expect that to stabilize at between about 3 and 3.5% of revenue, which will include both new capex for new sortation centers and new gateways that have been built, as well as maintenance capex for existing sortation centers and gateways.

Great. I think that answers the questions that we have on chat, Rishi.

Moderator: Thank you once again Sahil, Sandeep, Amit, Varun and the entire Delhivery team. You spent well over an hour answering these questions. And also for the opportunity to host you on this call. We would also like to thank all the investors and analysts for your interest in the company. And we think this an engaging session. We can conclude the earnings call here. Have a good day.

Sahil: Thank you. Thank you all for joining. Thank you Citi team for hosting us.

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