Date: **February 08, 2024**

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

Scrip Code: 543529

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

Symbol: DELHIVERY

Sub: Transcript of Earnings Conference Call pertaining to the Unaudited Financial Results for the quarter ended December 31, 2023

Dear Sir,

This is in continuation to our earlier letter dated February 03, 2024, regarding audio/video recording of the Earnings Conference Call held on February 03, 2024 at 11:00 A.M. (IST) on the performance of the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter ended December 31, 2023.

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

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

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

VIVEK KUMAR
Digitally signed by VIVEK KUMAR
Date: 2024.02.08 16:36:58 +05'30'

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

Encl: As above

"Delhivery Limited Q3 FY24 Earnings Conference Call"

February 3, 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 morning, everyone. Good day and welcome to Q3FY24 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're requested to drop off this call immediately. To discuss the results, I am pleased to welcome Mr. Sahil Barua, MD and CEO; Mr. Sandeep Barasia, ED and Chief Business Officer; Mr. Amit Agarwal, Chief Financial Officer; and Mr. Vivek Pabari, the Head of Investor Relations. As a reminder, all participants' lines will be in listen-only mode and participants can use the raise hand feature to ask any question, post the opening remarks. I thank the management team for providing us the opportunity to host this call and I invite Mr. Sahil Barua to take us through the key highlights of the quarter, post which we'll open up for Q&A. Thank you. And over to you, Sahil.

SAHIL BARUA:

Thank you for hosting us, Macquarie team and all of you who've joined. Thank you for being here this Saturday morning. As always, I'll begin with a short presentation and walk you through the numbers and facts from Q3, fiscal '24. This should take me about 10 minutes and then we'll be happy to pause and take questions for the rest of the session.

So overall, in terms of summary for Q3, it's been a positive peak quarter for us. As you're aware, the third quarter of the financial year is typically the high watermark quarter since it's the Diwali Peak season. We've seen significant growth in our core business, which is in the Express Parcel business during this quarter and also satisfactory growth and continued gain in market share in our Part Truckload business. So, our performance this quarter has been driven by outsized performance in the transportation business.

In terms of quick statistics that we always begin with, we continue to be India's largest integrated logistics platform. We did Rs. 2,194 crores of revenue from services in Q3, which is the first time we've crossed Rs. 2,000 crores in revenue for a quarter. This represents an annual growth of 20% in quarterly revenues and a 13% growth over the previous quarter of the financial year.

As we discussed during the earlier earnings calls this financial year, we expected a turnaround in EBITDA profitability in this quarter and I'm pleased to report that we generated Rs. 92 crores in adjusted EBITDA, which is a 4.2% adjusted EBITDA margin for the quarter, along with for the first time, a Rs. 12 crore positive PAT. So, breakeven at the PAT level for the first time as a company. We also for the first time crossed 200 million consignments delivered in our Express Parcel business, which is a growth of about 18% year-on-year, driven largely by the e-commerce peak season and also continued our trajectory on the LTL business with delivery of 354,000 metric tons of freight, which represents a 37% growth year-on-year and a low single-digit growth over the previous quarter.

In terms of overall network statistics, we have expanded pin code reach marginally. As of the end of Q3, fiscal '24 we service 18,675 pin codes, which is about 100 pin codes more than the same time last year. We continue to service the entire world through our partnerships with FedEx and with Aramex. Our customer base continues to grow satisfactorily. We now service nearly 30,600 customers, up from about 30,400 in the previous quarter. We've expanded key infrastructure. This has been driven largely by the expansion of our facility in Bhiwandi as we've consolidated from multiple smaller transportation facilities to our mega facility in Lonad. Overall number of gateways has remained constant. We are at 110 gateways and sortation centers across the country. The network has remained broadly stable. We continue to operate 30 automated sortation stations, continue to consolidate our overall freight service center network down to 131, and the Express delivery network continues to remain stable with 3,400 direct delivery stations and 993 partner centers. Team size has also remained broadly constant through Q3 at 63,000 employees, and 37,000 partner agents, along with 13,688 trucks and vehicles of various sizes.

In terms of key highlights for Q3, as I had mentioned, this is our highest ever quarterly revenue, our highest ever adjusted EBITDA margin, and the first time the company has turned PAT profitable. Operating leverage has driven our Q3 performance as we've discussed on multiple calls before, while we continue to expand our capacity, our view is that our incremental gross margins will continue to remain in the 50% range. And I'm pleased to report that they've remained in that range through Q3 of this year as well. Adjusted EBITDA therefore has risen to Rs. 92 crores, which is an expansion of 800 basis points year-on-year. Last year at the same time, we were barely break even and an improvement of 500 basis points from the previous quarter. And the Q3 adjusted EBITDA profitability offsets Q1 and Q2 loss. Our nine-month fiscal '24 adjusted EBITDA now stands at Rs. 55 crores and we've also delivered a Rs. 12 crore profit after tax in Q3.

In the Express Parcel business as I had mentioned, we've seen robust growth both year-on-year and quarter-on-quarter. In terms of volumes, our market share remains consistent. Our expectation is that the e-commerce market grows somewhere between 15% to 20% annually and we've seen an 18% growth in volumes. We've seen growth across all of our key accounts and also in the crucial segments which are growing faster, which are the direct-to-consumer segment, the SME segment within e-commerce and consumer to consumer shipping. In Part Truckload, while it's been a relatively flattish, slowish quarter for the industry as a whole, we've seen volumes rise compared to the previous quarter. There continues to be a steady recovery in tonnage. As you're aware, over the last seven quarters post our SpotOn integration, we've consistently been rationalizing our customer base to move to contracts which we believe are more profitable and which fit the delivery network better. That has continued in Q3. But the recovery in tonnage has also continued and our growth and our expansion of market share has been driven by service levels remaining consistently high even through the e-commerce peak season. So, the benefits of the integrated network in some senses are now accruing both to our e-commerce customers as well as to our Part Truckload customers.

On the supply chain services side, we've commenced our operations finally for a large player in the electrical space. This has been a contract that we won a couple of quarters ago and that we've been busy operationalizing. We've also successfully retained one of our largest key consumer durables accounts with improved pricing which sets us up well for the next three years. And our client acquisition momentum continues both in the auto sector as well as, interestingly, in the direct-to-consumer e-commerce sector, where we essentially have created now a white-labeled prime offering that is available to D2C brands of all sizes.

And we also operationalized our largest trucking terminal at Lonad near Bhiwandi, consolidating all of our other facilities into a single facility of about 670,000 square feet in Bhiwandi which is fully automated. This is our largest trucking terminal in the country.

A quick snapshot of financial performance - the graph on the left represents consolidated revenues which have grown from Rs. 1,822 crores in Q3, fiscal '23 to nearly Rs. 2,200 crores in Q3 of this financial year, which is a year-on-year growth of 20% and from the previous quarter we've grown about 13%. As expected and as is normal in this quarter, the Express business's contribution has expanded. Express is 66% of our revenue with Part Truckload at 17%. This has been driven by growth in e-commerce volumes during the festive season. The Express Parcel business has grown 20% quarter-on-quarter and 21% year-on-year in terms of revenues and 18% and 11% in terms of overall volumes respectively, growing from 170 million shipments in Q3, fiscal '23 to 200 million consignments in Q3 of fiscal '24. And in the Part Truckload business revenues have grown 37% year-on-year from Rs. 277 crores in Q3, fiscal '23 to Rs. 379 crores in this quarter, with tonnage having grown from 258,000 metric tons of freight in Q3 of last year to 354,000 tons of Part Truckload freight in Q3 of fiscal' 24.

Our smaller businesses have also continued to demonstrate growth and stability. Our full truckload service, which powers not just our externalized operations but also our internal line haul operations and is an input into our supply chain services business, has actually demonstrated pretty phenomenal growth over the last year. We've grown from Rs. 100 crores of FTL freight transacted in Q3, fiscal '23 to Rs. 153 crores of FTL freight transacted in Q3 fiscal '24. The supply chain services business has remained broadly flat year-on-year. We've gone from Rs. 178 crores of revenue in Q3 fiscal '23 to Rs. 173 crores in Q3 fiscal '24 and the cross-border business on a quarter-on-quarter basis continues to remain largely flat. Overall volumes in this business and specifically in our ocean freight business continue to grow. However, yields have continued to come down in the space. These three businesses continue to form about between 17% and 20% of revenue on a quarterly basis.

The adjusted EBITDA trend which we've been showing to all of you since we've gone public, continues to remain similar, though our profitability year-on-year has improved as you can see. In fiscal '24, we began at a broadly breakeven level in Q1, breakeven as well in Q2 and as you can see, we've achieved highest ever profitability in Q3, which has been driven by enhanced utilization across the network of our key infrastructure assets and improvement in utilization across our trucking network.

In terms of numbers very quickly, the column that's highlighted with the red dots is Q3 fiscal '24. As you can see, this is our 7th consecutive quarter of revenue growth and a record revenue for the company. We've grown since the time we went public, we've grown from Rs. 1,746 crores of revenue in Q1, fiscal '23 to Rs. 2,200 crores of revenue nearly in Q3 fiscal '24. Service EBITDA for the business, which is the EBITDA generated not accounting for central corporate overheads, stands at Rs. 306 crores, which is at 14% of revenue. Corporate overheads as you can see, we signaled previously that we expected corporate overheads to remain largely stable as the company continued to grow. I'm pleased to report that we continue to keep corporate overheads largely stable. They've dropped from 12% of revenue from the first quarter of fiscal '23 to 9.7% of revenue as of Q3 of this financial year. We expect corporate overheads to remain largely stable going forward. This gives us an adjusted EBITDA of Rs. 92 crores for this quarter versus negative Rs. 13 crores the quarter before and negative Rs. 25 crores in Q1 of fiscal '24, which represents an adjusted EBITDA margin for the last quarter of 4.2% and overall for the nine months of this financial year at 2.3%.

This is a standard bridge that we present on adjusted EBITDA every time. Our total revenue, as you can see in the column highlighted red, is Rs. 2,194 crores. Freight handling and servicing costs expanded by Rs. 130 crores from the previous quarter versus a revenue growth of nearly Rs. 250 crores, which gives you the incremental gross profit of close to 50%. Employee benefit expenses and other expenses remain largely stable, leading to a reported EBITDA of Rs. 109 crores. Adding back share-based payment expenses of Rs. 54 crores and deducting the actual lease rents paid, which is an adjustment under Ind AS 116, leads to the adjusted EBITDA of Rs. 92 crores. In terms of how various cost elements worked in Q3, as you can see, overall freight handling and servicing cost has continued to reduce and has reduced from 74.3% of revenue as of the previous quarter to 71.6%, largely driven by increased utilization across the network and also our opportunity to optimize and improve routing through a line haul network. As you can see, line haul, which is over 40% of our overall freight handling and servicing cost, has consistently reduced and is now at 31.7% of overall revenue. Of course, part of this is better utilization and part of this, as we've discussed over several quarters, is fundamentally our strategy on tractor trailers, dynamic line haul allocation and automated facilities playing out together. Vehicle rental expenses have also improved quarter-on-quarter from 20.1% to 19.8%. Contractual manpower expenses remained largely flat at the 12% mark. Rental costs have come down from 3.7% to 3%, driven by increased volumes. And as the network has stabilized post our integration with SpotOn, I think one of the important indicators of quality in the business is that lost shipment expenses or claims from shippers for losses and damages have consistently reduced and now stand at close to about 1.2% of overall revenue, which is what is driving the improvement in profitability.

Well, this is the last slide, just a quick snapshot. I think we've gone over this multiple times. In Q3, as you can see, revenue from services stood at Rs. 2,194 crores. Total income, including other income, stands at Rs. 2,325 crores, which again, as I'd mentioned, represents 14% growth quarter-on-quarter and 21% year-on-year. Freight handling and servicing costs in the same period have grown by much less at 9% quarter-on-quarter stands at Rs. 1,572 crores. Most of our other expenses have remained largely constant, leading to total expenses of Rs. 2,290 crores, which leads to a profit before exceptional items in tax of Rs. 31 crores and a profit after tax of Rs. 12 crores, which is our first profit after tax in our history of the company, and an overall EBITDA of Rs. 109 crores and an EBITDA margin of 5%.

So that concludes the presentation. I think broadly, before we get into Q&A, the summary of the quarters, I think we're very satisfied with how the quarters played out more or less to expectations. The key messages really are we've seen growth in the underlying business. I think e-commerce growth has been sort of within our expectations. We'd forecast 15% to 20% growth and we've seen an 18% growth in volumes. We've grown across all of our key segments. We continue to maintain share with key accounts and grow share in direct-to-consumer SME, C2C, and in the heavy products category. We're also seeing increased demand for our integrated fulfillment service, which is the white labeled prime service for direct-to-consumer brands, and we expect this to continue. Our service quality, the reach of our network, I think, are strong drivers of growth and sets us up well for the next year. On the PTL side, while it's been a relatively slow quarter for the industry, as I pointed out, and despite the fact that there were ten days of Diwali with relatively low ship outs across the country, I think we've seen volumes remain stable. This sets us up well for this quarter and for fiscal '25. We expect to continue to grow our new business development efforts which have started to pay yield for us. Yields have remained broadly constant and profitability has improved across the transportation business as utilization has continued to improve and incremental margins have remained at the 50% mark. And we expect the next financial year to also deliver growth for some of our newer businesses, whether it's supply chain services where we've got new contracts coming in, and the full truckload business which has grown about 50% a year. So overall, a satisfactory quarter, which sets us up well for the next fiscal. With that I'll pause and be happy to take questions from all of you.

MODERATOR:

Thank you, Sahil. We'll now start with the Q&A. As a reminder, please use the raise hand feature to ask any questions. We'll take the first question from Vijit Jain.

VIJIT JAIN:

Hi. Thank you. Hi team. Congratulations on a great set of numbers. My first question, just looking at the e-commerce yields, right, pretty strong growth, 8% QoQ. And you've called out the mix of heavies earlier as contributing to that in the festive season. I'm just wondering, in Q4, does yield drop back to Q2 levels, broadly speaking, or are you actually seeing a sustained increase in share of heavies in your e-commerce mix beyond festive?

And related to that question, if you could provide total contribution of those three categories, you called out D2C, SME and C2C in your e-commerce mix, that'd be great. That's my first question.

SAHIL BARUA:

Sure. Thanks Vijit, you're right. The increase in yield by 8% in Q3 is a sort of standard annual affair as overall heavy yields go up. That's one. The second also is that in this quarter, as there's more buying from across the country, typically average distances that we move also tend to go up and yield is also influenced by the distance that is traveled. So, the origin and the destination mix tend to change a little bit during the Q3 period. On Q4, I think it's too early to say, Vijit. I think yields will obviously not remain at Q3 levels because the overall mix will shift back a little more towards lighter weights, and distances typically do tend to go down a little bit in Q4. However, it's a very early sort of point of the quarter for me to comment conclusively as to what will happen. And customer mix also tends to change during Q4 a little bit because there's a different set of players which typically will have their sale periods and volume growth at this time. But suffice to say, I don't think the yield of Q3, where the heavy mix is larger, is representative of overall annual yield. Now, in terms of the other question you were asking, sort of the subtext is are we seeing a larger shift towards heavy overall across our network? I think we said this before. Our ability to deliver odd form factors and heavy products is a key differentiator of our network. Typical light parcel networks are not able to handle heavy products because they require a fundamentally different infrastructure and a fundamentally different delivery mechanism. Our ability to blend parcel and freight is what gives us this unique ability to gain share in heavy. And we have seen heavy volumes go up secularly, not just in the last quarter, but if you look at it since the inception of the company and when we began to integrate freight and parcel, I think we've seen heavy go up. So, continuing to grow heavy volumes is a key strategic focus for the company and it's something we'll continue to do. So, yes, we do see a salience of heavy going up.

In terms of various segments, Vijit, we don't declare it at this point in time, but suffice to say, direct to consumer brands, SME, consumer to consumer and there are a couple of other smaller segments. For example, we do service a number of omnichannel retailers as well. As an overall percentage of our business, this has been growing for us year-on-year. Over the last financial year, in fact, this was a very significant focus for Ajith and his team and we've seen growth in D2C to give you a sense, if I'm not mistaken, we're nearly 30% up year-on-year on D2C volumes. We are nearly, I think, about 45% to 50% up on overall SME volumes year-on-year. And on the consumer side, I think we are somewhere between 25% and 30% up year-on-year. This is both our franchise service where you can apply to be a Delhivery franchise across the country and source all delivery loads for us and our delivery direct application where consumers can download the app and directly ship to us. So, we're seeing growth in both. Suffice to say, these are the fastest growing segments that we have as part of our overall e-commerce portfolio.

VIJIT JAIN:

Got it. Thanks, Sahil. And just two more questions. One is the mix of heavies, in general, across both horizontal as well as D2C. And my last question would be the lost shipment expense. I'm just wondering because this is your peak season, and in that also you've seen a pretty sharp QoQ drop in lost shipment expense. So, I'm wondering if in the non-peak seasons, are you already back to that you know 0.5%, 0.6% of sales band that you used to have maybe before a few quarters?

SAHIL BARUA:

Sure. I think in terms of heavy, we are seeing growth, obviously, with the big horizontals who are obviously the largest principals in the market. But we are also growing our SME base of shippers. So, you know this includes not just categories like durables, which typically are sold more on the larger platforms, but even unstructured categories, for example, like furniture, where we're increasingly becoming a larger shipper. So, it's obviously primarily driven by the larger platforms and some of the larger D2C platforms but also now a larger base of SME customers. In terms of lost shipment expenses, yes, we are down to 1.2%, where we've seen a reduction in loss and claims from shippers not just on the e-commerce side but also on the PTL side. And at least based on what our understanding is of the industry, unfortunately all of our competitors in parcel, for example, except for Blue Dart, are largely private companies. I think this is where our investments in technology and our investments in data science make a difference. We have, you know, sort of fairly deep capabilities to identify potential fraud, potential losses, potential damages across the network and cut those out earlier than most other networks can. And I think we will continue to work on this. We expect to continue to see an overall reduction in loss and damage because this is not just a benefit for us, by the way. This also actually flows back as a benefit to the underlying marketplaces or direct-to-consumer brands. You know, preventing fraudulent sellers from selling on platforms, preventing fraudulent consumers from buying on these platforms. A lot of what we report as loss and damage is not necessarily consignments that are lost in the network or damaged. But they're overall claims. Think of it as loss, damage and sort of fraud protection. So whether we'll get back to 0.5% sort of next quarter or not, you know I can't comment, but I think the reducing trend of L&D as a percentage of revenue will continue.

VIJIT JAIN:

Got it, thanks. Those are my questions. I'll jump back into the queue.

SAHIL BARUA:

Thank you.

MODERATOR:

We'll take the next question from Sachin Salgaokar.

SACHIN SALGAOKAR:

Hi, thank you for the opportunity and congrats on a great set of numbers. I have three questions. First question - I just wanted to understand if it is possible for you guys to directionally help us in terms of understanding the volume uptake, how much is seasonal and how much is, let's say, consistent improvement in the industry. Or in other words, you know we did see a 20% YoY growth on Express Parcel. Is that a range one could look at as a range which could be sustainable more or less in that range going ahead?

SAHIL BARUA:

Yeah, Sachin, I think we've spoken about this before. We expect e-commerce volumes in general to continue to grow at the sort of 15% to 20% range. The 20% uptick that you've seen in Q3, of course, a part of it is driven by the extreme sort of impact of sales in the early part of October. So, 20% growth quarter-on-quarter, obviously is not a regular rate of growth for the industry. I think long term sustainable growth rates for the industry, as we mentioned before, will remain 15% to 20%, or at least that's what we model our capacity planning on. Of course, if the industry surprises us with higher than 20% growth, we're happy either way because we're the only player with the capacity to absorb that increase in volumes and also with the cost structure that we have. But internally our planning is usually done in the 15% to 20% range.

SACHIN SALGAOKAR:

Got it. Very clear. Second question, perhaps for Amit, wanted to understand how could one look at the depreciation, amortization and finance costs going ahead? Any drivers which we should keep in mind, for instance, on the Supply Chain side, you guys are looking to scale up in the electrical space with one of the new customers. So, could we see an increase in cost sharply on the back of this?

AMIT AGARWAL:

We do not expect significantly higher capex versus what we have guided to. We have brought down our capex as a percentage of revenue down from about 10% four years ago to about 7%-7.5% this year. We would expect to marginally improve it in FY25 as well. So, I could not expect any material change in depreciation next year onwards.

SACHIN SALGAOKAR:

Okay, so no leasing cost?

AMIT AGARWAL:

Leasing costs will increase in line with the contracts. So if we are going to launch new fulfillment centers, those will increase in line with the revenue that comes in from those contracts.

SACHIN SALGAOKAR:

Got it. Very clear. And my last question is one of your top customers is also now looking to focus a bit more on insourcing where we are hearing around 20% of their orders are getting insourced. Any general thoughts if this could potentially impact market share and volumes for you guys?

SAHIL BARUA:

I think my views on companies insourcing parcel delivery are fairly well known by now. And I think any company which decides to insource logistics does so at their own risk. That said, if companies do decide to insource, whatever their strategies might be, ultimately, given our cost structure and given our reach, our belief is that it's other participants in the industry who probably should be more worried rather than Delhivery. I think we're very confident about our ability to maintain market share under the fluid strategies of our customers. And outside of which, you must remember that part of the reason that we set up an integrated network is so that we are not particularly susceptible to, as I'd mentioned, the vagaries of the fluid strategies of our customers. And the fact that we have a large PTL business allows us to continue to deliver at the costs, even with the efficiencies that we do today.

So, we're not dependent on any sort of individual customer choosing a new logistics strategy every year. I can't really comment. I think my view is that self logistics is not something that scales up and is efficient compared to third party players, not just Delhivery. I don't think it is more effective than outsourcing to Ecom Express or to Xpressbees or to Blue Dart or to anybody else. But that said, different companies have different strategies.

SACHIN SALGAOKAR:

Thank you, Sahil, and all the best.

SAHIL BARUA:

Thank you.

MODERATOR:

Thank you. We'll take the next question from Pulkit Patni. Pulkit, please go ahead with your question.

[no response]

MODERATOR:

Okay, we'll take the next question from Gaurav Rateria. Gaurav, please go ahead.

GAURAV RATERIA:

Hi. I hope I'm audible.

SAHIL BARUA:

Yes, Gaurav. Please go ahead.

GAURAV RATERIA:

Congrats on a good set of numbers. I have a few questions, and this question I think comes kind of, sort of every quarter on your ability to sustain very high incremental gross margins in the transportation business. When you look at some of your operational metrics in the last mile, such as density on a per delivery partner basis, or a mid mile, such as the truck fill rate and sorting utilization, how do we understand where are we versus the optimal levels? Just trying to understand the sustenance of these incremental gross margins in the transportation business on a going forward basis.

SAHIL BARUA:

Certainly, I think that's a very important question, Gaurav. I'm glad you asked it. See, incremental gross margins, as I've mentioned, in the past, they continue to surprise us. You know Incremental gross margins in this quarter have also been 50%. And I'll explain to you why it's not very easy for us to necessarily give an exact measure of utilization. When we did this spot-on acquisition, which was seven quarters ago, as I've mentioned, we acquired it because it was integral to growing our PTL business, providing integrated benefits to our Parcel and our PTL customers and growing our tractor-trailer and automated gateway strategy. Now at that point we were driving close to about 20% of our overall CFT kilometers, CFT is a cubic foot, or if you take ton-kilometers on the tractor-trailer. And our tractor-trailers were at that point about, if you look at it purely on axle weight of volume, about 51% utilized. Now, our own numbers today suggest that we are driving close to about 63%, 64% of our ton kilometers on the tractor-trailers. So obviously the smaller format trucks are the ones which have lost out, which is 32-foot SXL and MXL form factors. And utilization has increased from about 51% to about 62% or 63% in general. Now, our ability to increase utilization continues because, a) we are densifying loads across the network, both with client selection, which is also why we've been jettisoning certain kinds of clients over the last seven quarters and also, we're getting better at route planning and optimization. So, on average, you know our tractor-trailers continue to drive about, if I'm not mistaken about 250,000 kms a year. And so, we find ways to utilize them better. So, it becomes a little bit complicated. But those are some headline statistics if they help.

On the DC network, as you can see, we've held DC network constant at about 3,400 direct delivery stations and we continue to have about 993 partner centers. While there isn't a very scientific way yet for us to determine what the exact delivery capacity of a DC is, the internal metrics are typically taken at somewhere between about 700 and 800 packages per delivery center per day in a non-metro environment and in the metros, we typically take DCs at between about 1,200 and 1,400 packages per DC per day. Does that mean that DCs can't deliver more packages? No, but typically, as an example, in a metro, if you're trying to do 2,200 consignments in a DC, you do end up seeing a certain amount of service degradation. Now, based on those sort of 800 and 1,200 you know thumb rules, I would say that DC capacity utilization stands at an aggregated level somewhere at about between 45% and 60% state by state across the non-metro network and close to about 75% on the metro network. So, we have sufficient sort of capacity available in the DCs, and I do not anticipate us significantly expanding the DC network in this quarter or in the financial year to come.

On the gateway side, again, it's a little bit of a complex question, because to give you an example, when we started our Tauru gateway, which was the first mega facility that we set up, it was originally set up to handle close to about 350,000 odd freight units, a freight unit in our case is something between 15 to 20 kilograms per box, per day. Now, when we set it up, of course, it was with an initial engineering plan. Over the years we've learned how to engineer better and we've expanded the lifecycle of the Tauru facility. And now it's in fact capable of going between 450,000 and 500,000 freight units a day. So, the definition of capacity sort of expands in our network, which may make it difficult to give you an exact capacity utilization figure at any point in time. But I can assure you it is good news because essentially, we're expanding capacity on existing assets, we're learning how to use our existing automation better and expanding the life of our larger facilities. So tough for me to give a number. That said, I think rather than focusing on the exact 50% number, which is what we seem to have hit for the last seven quarters, I can tell you that incremental gross margins in the network will continue to remain high, is our view. They will of course come down at some point in time over the next financial year. And at an overall level, we do not expect that we will have significant expansion of infrastructure or significant expansion of the network in fiscal '25 even if we were to look at normative sort of volume growth, which is in the range of, let's call it 15% to 20% for the parcel network and let's say, even 30% for the PTL network.

GAURAV RATERIA:

This is super helpful, very detailed answer. My next question is, on PTL, can you highlight investments that you have made to ensure that we sustain 2x of the industry growth going forward basis? I know there is some amount of base effect also playing out this year from a YoY numbers perspective, but let's say if we have to grow sustainably at 2x, what are the investments that we made in the last three or four quarters? And lastly, I also want to place a request that how do we start tracking the ROIC metrics for the transportation business? Maybe at least on an annual basis, if not quarterly, in terms of understanding, it's moving in the right direction. Thank you.

SAHIL BARUA:

Sure. I'll let Amit sort of take the second part of that question. On the first part, which is the investments on the PTL network, I think, Gaurav, what you're really seeing here or let me put it this way, there are no particularly path-breaking investments that we expect to make to continue to maintain market share in the PTL business going forward. Of course, we continue to research what we can do on automation and what we need to do from a technology standpoint. But that's a different problem. At the moment, I don't think there's anything particularly new. The investments that we needed to make in the PTL business to gain market share and to continue to grow over our you know the rest of our organized competitors are investments that have been made long back, which are the decision, for example, to run an integrated network between Part Truckload and Express or the trailerisation strategy which I mentioned seven quarters ago, we drove 72 billion cubic foot kilometers, of which 20% of that came from our TTs. And you know in the last quarter we drove 128 billion Cft kilometers, of which you know something like 63% came from our TTs. And the TTs are core to growing the overall PTL business. They just allow us to haul a lot more, load a lot more efficiently than anybody else and we will continue to invest in building up our TT Network. It's not just a question of buying the trucks, it's also a question of learning what goes into the trucks, how to integrate them with your automated mega gateways and then obviously how to make the mega gateways more productive than they are. I think on PTL, as I mentioned, the story in India is one of sort of a long period of consolidation in the market which will continue. The organized players today put together form, you know, less than 45%. The top three are probably less than 20% and all of us put together less than 45% of overall Express PTL volumes in the entire country. And so, we essentially have to keep doing what we're doing right now, more tractors, more trailers, better automation, better handling capabilities and a larger sales force. The other big investment, of course, will be a larger sales force on the ground. As I have spoken about in Q3, we have started expanding our sales force across the country. We've historically been focused on three markets, which were really, Delhi, Bombay and Bangalore, which in some senses, are the three nodes of the major freight corridors in the country. We've expanded Salesforce now with a large number of state capitals, tier 2 cities, and even other large freight origins. So multiple cities across states, and we will do a little more sort of expansion of the sales force in Q4 and then sort of reap the benefits of that, hopefully in fiscal '25. Outside of that, it's going to be sort of more or less business as usual. So, no very significant investments to continue to gain market share. I think shippers are happy with our service. Justifiably. At the end of our first financial year as a company, when we had our issues with the SpotOn integration, shippers were nervous about whether we would be able to manage a peak season in the integrated network. I think over the last four quarters, we've gone back to customers, we've given them assurances which are not empty assurances but also backed up by network performance, which you ultimately can see reflected in the volumes. So, I think shippers are a lot more confident as well and knowing we'll just continue doing what we do. In terms of ROCE Amit, if you can take that question quickly, please.

AMIT AGARWAL:

So, Gaurav, as Sahil mentioned that we are continuing with our growth in LTL business which couples two things. One is growing the business and second is growing it with the right set of customers. I think once we are done with this cycle, the ROIC or ROCE calculations would make a lot more sense for a business like us. I think also, we'll be significantly ahead in our journey of investments, whether it is in tractor-trailers or in the next mega gateway we'll get in Bangalore in mid-2024. So, post these two things happening, I think it would be a better time for us to track those things on an annual basis. In the short term, I can give you a way to understand the ROIC calculation for the businesses. The base working capital days for Express Parcel business as a whole in industry is about 30 days. In PTL it is an average of about 45 days. In SCS it's about 45 to 60 days. FTL is about 90 days and Cross Border is also about 45 to 60 days. You can prorate our receivable days or net working capital days on these ratios and come to approx working capital deployed in each of these businesses. In terms of Capex, FTL and Cross Border businesses do not have any capex. Supply chain services business typically carries a capex of about Rs. 1,200 to Rs. 1,300 per square feet of the fulfillment space that we deploy. The balance of the capex is primarily to the transport business. There is a certain fraction of revenue, about 1.3%, that would be in IT or corporate capex that may be happening if we have set up some office. It could be actually less than 1%. In a peak year it would go to about 1% odd. So that you can prorate it to all the businesses. And that would give you a fair sense of how the capital is deployed across each business.

GAURAV RATERIA:

Thank you very much and all the best.

MODERATOR:

Thank you. And as a reminder, in the interest of time, request all participants to please limit the number of questions to two. We'll take the next question from Krupashankar.

KRUPASHANKAR:

Good morning and thank you for the opportunity. Great set of numbers. My first question is on the recent announcement, which large horizontal platforms has made with respect to roll-out of same day delivery in around 20 cities. Now, these include multiple Tier 1 and Tier 2 cities, right. So, just wanted to understand from your end that are you seeing on the ground that there is a certain level of scale which each of these growing cities have reached? And from here on, there's not going to be substantial delta expected from these cities with respect to orders per user, per month or with respect to further penetration. And how do you see this as a trend going ahead with respect to the D2C segment as to whether they are expanding their geographies as such?

SAHIL BARUA:

Sure. Thanks, Krupa. Let me answer these in a slightly different order. One is, do we continue to see growth in, let us call it, the top 20 cities of the top metros? I think the short answer to that is, yes, we do continue to see growth in the metros and in the key cities. E-commerce is a funny animal in India in some ways. In the metros, the drivers of growth are not the same as the drivers of growth outside the metros. In the metros, what we're seeing is that the key driver of growth is an increased frequency per user. I think this number has been shared, of course, with limited context in India. But the average number of packages per person per year in India is something in the range of four packages per person per year. And an equivalent number for a country like China, admittedly, with significantly higher disposable income stands at something like 70 or 72 or thereabouts. So, I think that is going to continue to be a trend in the Indian market across the metros. I mean, a simple example, on a lighter note would be just look at the number of packages you probably ordered. If I look at my own order history. So, I think order frequency will continue to go up. That's number one. I don't think these cities have plateaued us yet. And I think on the tier 2 and tier 3 side, the driver of growth is a combination of increased frequency, of course, but a lot of it is also people exploring e-commerce for the first time. People make a transition from saying we will search for things on the Internet to saying we will consume things on the Internet, whether it's content or anything else, to then saying we'll go and start trying to buy things on the Internet. And I think a large number of consumers are making that journey. So overall, I think there are different drivers of growth but no, we don't see Metro is slowing down and no, we don't see the top 20 cities slowing down. In terms of same day delivery, I'm not sure what's the big deal about this announcement. Same day delivery has been available since 2012. It continues to be reliably available in 2024 and will continue to be reliably available in 2036. In terms of overall delivery speeds getting marginally faster, that depends on what category of inventory you're speaking about specifically. Is it feasible to deliver Apple iPhones in 3 hours in metro cities? Absolutely. It's structured inventory and it is possible, therefore, to create a fulfillment model which makes sense. Is it possible to deliver apparel, unstructured soft line categories across 20 cities in 3 hours? Of course, it's possible. The question then becomes what the extent of inventory is that you have to carry to make sure you can service those orders to begin with. The problem in logistics is never one of whether you can get to a consumer fast enough. The question is why you want to get to them fast enough and with what inventory in the first place. I think from our perspective, our ability exists to offer any delivery speed. We can offer three-hour or four-hour delivery in a city. We can offer same day delivery; we can offer next day delivery. We can slow it down and offer five-day delivery if there's demand for it. The question is what is the underlying category? The good thing is that from our perspective, the network that delivers it is the same. We don't have to create multiple networks to provide that service. So, I don't think the announcement is particularly path-breaking. It's a service which already exists.

KRUPASHANKAR:

The second question is on the Part Truckload business. So just wanted to get a sense - we are seeing that there is a fair bit of weakness with respect to volume growth in the industry. And of course, there are multiple aspects which are at play this time around. While you pointed out that because the industry is also likely to grow at a much faster pace over the longer run, which is primarily on consumption driven growth, how do you see the impact of near-term challenges on the network? Is it fair to assume that maybe there is pain for the next six months?

SAHIL BARUA:

Yeah, I think when people focus on a single quarter, and I speak for the industry here, and I'm sure that many of our colleagues in this industry are getting asked this question in their earnings calls as well, I don't think looking at degrowth or volume being flat in Q3 is an indication of any sort of broad industry trend. The big movement in PTL over not just the short term, but even over the medium and long term is not whether the PTL industry is going to grow 8% a year or whatever percentage point over nominal GDP. The big movement is that India is a rapidly organizing market. As I mentioned, the entire sum of organized players in the PTL industry forms less than half of what is probably something like 22 million metric tons of PTL freight moved annually. You know as Delhivery, we'll probably move, let's call it, if I take our current run rate, something like 1.6 million metric tons of freight this year. So, is there enough headroom for growth for all of the companies in this space? Absolutely. Is there a dog-eat-dog market, absolutely not. We're all competing to grow the share that organized players have of a deeply unorganized market. And whether the industry in the near term grows at 8% or 9% or 10% or minus 8% makes absolutely no difference, not just to Delhivery, but not to Gati or to VRL or to Safexpress or to anybody else. There's enough room for all of us to continue to execute our strategies comfortably. I think in terms of why specific players have faced specific challenges in any given quarter, that's a combination of where your volumes come from, where they're going to, what kind of network infrastructure you happen to be setting up at that point in time. Now we have different network strategies across the industry. For us, the logic is that since we have a network where we can dynamically route traffic, we are less susceptible to the vagaries of the environment or any sort of disruptions across the country. And so, we tend to see relatively less volatile changes in demand compared to the rest of the industry. I don't think there's any near-term pain overall for freight players. There shouldn't be. Q3 is a little anomalous. I think the underlying story on PTL remains robust. The story is not about whether it grows 5% or 6% or 8% a year in the short term, the story is really about the unorganized sector becoming organized and it's an opportunity not just for us, but if I were a PTL player anywhere in the country, I'd be pretty optimistic right now.

KRUPASHANKAR:

Thank you for answering these questions. All the best.

MODERATOR:

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

[no response]

Okay, we'll take the next question from Hitesh Goyal. Hitesh, please go ahead.

HITESH GOYAL:

Thanks for taking my question and congratulations on a very good set of results. My question is actually on the gross margin. So let me set the context. Basically, you said that tractor-trailer utilization has gone up. So first, can you help us understand what percentage of your tonnage goes through your own trailer, and how has that number been for this quarter versus, say, last quarter? And last quarter you had talked about, in the middle of the quarter we had an earnings call, you had talked about 30%, 35% as a gross margin going ahead, because you had credit capacities. This quarter you have delivered 50%, right. So, this number is quite volatile for investors to really understand. So, what can be the sustainable gross margin on transport business. So, can you please explain these details?

SAHIL BARUA:

Absolutely, Hitesh. On the first one, the percentage of tonnage that's moving on our own tractor trailers, as I mentioned, seven quarters ago we were driving close to about 72 billion cubic foot kilometers, of which about 20% was being driven on our own tractor-trailer network. The rest of it was being driven on 32-foot single-axle, multi-axle trucks and then smaller formats. In the last quarter we've driven about 125 billion cubic foot kilometers, of which about 63%, 64%, as I mentioned, is being driven on our tractor-trailers. All of these tractor-trailers obviously are captive operations. We're the only player in the industry, really, who's using it for these purposes at this point in time. So, if you look at it, our tractor-trailer percentage has tripled in the last seven quarters and it's tripled off a base which has expanded. We do expect this to continue to expand, however, obviously we cannot go all the way to 100%, much as we would like to. My sense is that, and again, I could be wrong here and I do apologize and I realize that investors have models that they need to get to, but the fact of the matter is that this is a volatile and large market. My sense is that the 62%-63% that we are at of TT utilization, probably gets to about 70% at most in the next financial year. This isn't because we can't find tractor trailers or we can't figure out how to operate them. It's really because ultimately driving tractor-trailers in the deep northeast of India or in the hills of India is not a feasible operation. And we continue to have volumes in those locations. And there's a gestation period for hubs to become TT capable. We've gone from 43 TT capable hubs in Q1, fiscal '23 to 59 TT capable hubs as of the last quarter. So, we have a cycle with which we continue to expand TT-capable hubs. Sorry, very long answer to your question. Point is percentage of tonnage has gone up from 20% to 63% on TT, while overall ton kilometers has gone up about 50%.

HITESH GOYAL:

Just a follow up there. So, basically, you're saying it's 63%. So, I think in previous Concalls you have said that once you reach 75%, 80% kind of levels in terms of utilization, and I'm assuming tractor-trailer is a big part of that operating leverage that we are talking about, then we should assume say 30%-35% kind of gross margin which you are safe with. I understand there's a lot of volatility or will be volatility because you are adding capex but can you give a number?

SAHIL BARUA:

Yeah, I think that's the hard part, because there are really three pieces of utilization in our network. Every logistics company has three core assets that they are driving capacity utilization on. One is infrastructure, two is trucks, and three is people. And in our case, while you're right about the trucks, I think what will happen is that at 75%, 80% tractor-trailerization and let's call it 70% to 75% utilization of the tractor capacity at an individual level, certainly at that point in time, there is no additional marginal utility of the trucks. But that said, on both infrastructure and people, that is where engineering and technology and long-range design makes a difference. As I mentioned on our Tauru facility, if I was having this analyst call three years ago when we set up Tauru, I would have been saying, well, in about 18 to 24 months we should see diminishing marginal utility at Tauru. But we aren't seeing it because our ability to engineer the facility and our ability to bring in new systems has increased over the last three years. But yes, I think long range GMs, as I'd mentioned, when we look at our own numbers for the last, call it, 48 quarters, since we started the business, we think incremental gross margins settle at that 30% mark. This volatility, fortunately so far, and scary as it might be for investors in general, the volatility has been on the upside and not on the downside. So, do I believe that marginal utility will be below 30%? No. But do I think that there are quarters when we're going to expect 30% and get 40%, I think the happy answer is yes.

HITESH GOYAL:

Great. My final question is on PTL. So, I hear you that you are actually now increasing sales force because now you are more confident about the network. Does that mean that we are going to add more SME clients? And how does your strategy of going with the same network as e-commerce, that will be the strategy to get SME clients also on the same route? And so, if you can give some colour, because that will impact the yields also, right? Or are you going to go with large clients only?

SAHIL BARUA:

Both, I think absolutely both. In some senses, the good thing about the way our network has been set up, unfortunately, it's something that we discuss with our private investors and it hasn't really come to the public markets, is, look, traditional logistics companies have always operated with the idea that there's a little bit of a Robin Hood kind of strategy, right. You go to the major accounts, or let's put it this way, a reverse Robin Hood strategy, right. They rob from the poor to pay the rich. So, you go to SME customers and make 50% gross margins while being very happy to make practically nothing at all on major accounts. And you use them to justify the concept of base scale in the network. That's not how the Delhivery network was set up or was envisioned to begin with. We have the ability to make margin with all sizes of customers. We started out off, obviously, in e-commerce where we make healthy margins both with our large marketplace customers, as well as with D2C brands. And we make sure that we're a relatively equitable player. And we will continue to do that on PTL as well. Our network is the lowest cost network, and when you're the lowest cost network, you have the freedom to price aggressively to all sets of customers uniformly, which is what we do. So, we will acquire both major accounts, as well as SME customers.

But to your question, why are we expanding the sales force? We are, of course, expanding the sales force because we want to significantly expand the base of SME customers that we work with. SME and some even smaller than SME, which we classify practically as retail, SME and retail customers across the country. That's where the big LTL movements and the big LTL opportunity are. And in our view, it's a historically underserved segment of the industry.

HITESH GOYAL:

Good. Sorry, I have to ask this follow up related to this only. So, when we acquire the SME customers, we are going to go through our existing network only. We are not going to create a separate channel like others are doing to get those opportunities.

SAHIL BARUA:

No, No existing network. Absolutely Existing.

HITESH GOYAL:

Great. Thanks Sahil, Thanks for answering. Thank you.

MODERATOR:

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

SACHIN DIXIT:

Hey. Hi Sahil. Congrats on a great set of results. I had a couple of questions. The first one was comparing Q3 of this year to Q3 of fiscal year '22. Right. And if looking at the pro forma numbers, if we do that roughly, we see that revenue has obviously gone up. SpotOn, which was proforma then and now with our network being completely stable, loss-making customers being culled out and all. Despite that, EBITDA margins have not really improved at company level at least. So, can you tell us where the investments are going in? What is driving this stability of EBITDA margins despite revenue going up?

SAHIL BARUA:

Sorry, are you comparing Q3 of '24 with Q3 of '23 or Q3 of '22?

SACHIN DIXIT:

'22. which is when we had SpotOn independently but proforma numbers were published.

SAHIL BARUA:

Sorry, just give me a second while I pull the numbers for '22.

Yeah. Adjusted EBITDA margin for Q3, fiscal '22, though I don't have the exact numbers in front of me, but I think stood at about 3.7-odd percent, which is currently at about 4.2%. I think the difference between Q3 of fiscal '22 versus the last Q3, if you look at it, well, I don't have the exact numbers. I'll just pull them in a second. I think our PTL volumes in Q3 of fiscal '22 would have been higher than the volumes that we have done in Q3 of this financial year. In fact, we did 442,000 metric tons of PTL freight in Q3 fiscal '22, which is nearly 90,000 tons of freight or about 25% higher than the freight that we did in Q3 fiscal '24. So one way to look at it, while network size over this one year period has increased, despite the fact that we are still doing 90,000 tons of freight less than we did, at that time in Q3, fiscal '22, adjusted EBITDA margins in this quarter are higher than they were in that quarter. This is driven by higher utilization and the fact that we have a greater percentage of our loads moving on the tractor-trailers. If anything, I wish, of course, that we had done 440,000 tons of freight in the last quarter as well. But if you assume 90,000 tons of freight coming in at a high incremental gross margin, even if you were to conserve it, I'm making these numbers up a little bit. But let's say we did 90,000 additional tons of freight in this quarter at broadly call it a Rs. 10 yield just to keep the math simple, we would have done another Rs. 90 crores of revenue for the quarter. Even at a conservative incremental gross margin of 30%, that's another Rs. 27 crores in earnings for the quarter, which would have happened. So, on the Q3 fiscal '22 numbers, I would say, our profitability was depressed at the time because the fact of the matter is that we didn't have as much TT utilization and that's why for this quarter, actually, even internally as we look at it, are particularly impressive. We're 90,000 tons smaller on freight and 500 basis points better on EBITDA.

SACHIN DIXIT:

So roughly, in terms of profitability, SpotOn prior to acquisition to today's PTL was operating at a lower margin.

SAHIL BARUA:

SpotOn?

SACHIN DIKSHIT:

I mean Q3 FY '22 PTL business I am assuming is largely SpotOn.

SAHIL BARUA:

Well, it was about 60% SpotOn, 40% Delhivery, but I don't think that's the point here. I think, yes, the overall PTL business for Delhivery and SpotOn would have been less profitable than the business that we're running right now. And for two reasons that mentioned one is of course we are changing our customer mix itself. So right at the top of the funnel we are deselecting customers who we think don't fit our expected profitability profile. Or alternatively going back to them and saying, look, we need different rates for us to service you. So, there's significant change in the pricing strategy of the company between these two financial years. And the other piece is there's a structural shift from Q3 fiscal '22 to today. When we look at our line haul expenses per kilogram of freight that's moved, there's a very significant delta between Q3 fiscal '22 and Q3 fiscal '24. And as I mentioned, that's driven almost entirely by the shift to tractor trailer. We were at that time in Q3 fiscal '22, we would have been doing 20% of our movement on TT, whereas now that's over 60%. So, if we had been doing 60% TT in Q3 fiscal '22, our Q3 fiscal '22 numbers would have been much higher.

SACHIN DIXIT:

Fair enough. And talking about the gross margin improvement, right. It's done quite well. So, if we try to break it down, the gross margin improvement that would come from higher tonnage happening via tractor-trailers. But there will be an incremental cost that will come below right in depreciation, I'm assuming in TT? So how do you compare that incremental benefit that we getting on gross margin and the cost that is coming in, can you break it down for us a bit?

SAHIL BARUA:

Sure. Well, I think I'll let Amit answer on the exact math, but let me explain sort of on the TTs, why they make a lot of sense. First of all, the difficult part of the decision was establishing the base fleet of the TTs. From this point on, obviously, the incremental TTs that we're adding as a percentage of the base is not particularly large. And so, we don't anticipate violent shifts in the gross margin as we expand the tractor-trailer fleet.

The other thing on the TTs at least, the interesting thing that we have seen, our first set of tractor trailers that we bought four years ago, completed 1 million kilometers of driving on that fleet of tractor-trailers in four years, which is 250,000 kilometers a year, or approximately 21,000 kilometers a month, which by Indian standards, where an average truck will drive between, call it 7,000 kilometers and 9,000 kilometers a month is pretty significant. So, one is we're just getting more mileage out of our trucks.And the second is that these trucks are depreciated in four years. And we expect that the useful life of these trucks is conservatively eight years and aggressively, based on what we can see right now, we might even be able to run these trucks for ten years. So it's actually a hugely accretive asset for the business. But that's it. Amit, if you want to weigh in specifically, I'll take a pause here.

AMIT AGARWAL:

Sure, Sahil. So, there is roughly about mid-teens of depreciation that is accounted for the trucks every quarter. That is the maximum extent you can consider, which is the impact of gross margin going to the depreciation. Something like Rs. 14-15 odd crores a quarter. I think the important part is what Sahil highlighted, that these trucks are being depreciated at close to about 4.7-4.8 years, while the useful life of this asset could be very well beyond eight years for us. Sahil gave an example of Volvo tractor trailers, but even relatively lower quality trucks, which are 32ft trucks we first bought in 2015-2016 and depreciated them in three years. Most of them continue to run for us even today, which basically means they have already shown a useful life of more than 8 years. So, our assumption on Volvo tractor trailers running for us in excess of eight years is an assumption that we are very comfortable. And also, I want to emphasize that the depreciation methodology that we are using is WDV. And in a capex cycle phase, this is a higher depreciation being accounted for in our books.

SACHIN DIXIT:

Right. Understood. Just one final question, if I can squeeze in. Lease rental cost, the cash rental amount that you guys gave has roughly been flat for the last almost 8-10 quarters. While obviously the network has expanded and other things have expanded as well. So why would that be the case? That's my final question. Thank you.

AMIT AGARWAL:

Lease rentals have fairly remained flat because the network footprint has remained largely flat between 18-19 million square feet of infrastructure. We would expect Q4 of FY24 and then Q1 of FY25 to show some increase when full rent for our expanded Bhiwandi facility is accounted for in Q4. I think the extent of total fixed cost, not just rent, but total fixed cost impact would be close to about Rs. 4 odd crores in Q4. And then we will have some impact coming in from Bangalore facilities consolidation in Q1 FY25. Other than that, we have not expanded the physical capacity or physical footprint of the network.

SACHIN DIXIT:

Understood. Thanks so much.

MODERATOR:

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

[no response].

Okay, we'll take the next question from Pulkit Patni. Pulkit, please go ahead.

PULKIT PATNI:

Sir, thank you for taking my questions and most of them are answered. My one question for Sahil. Sahil, the way you speak about the e-commerce business and that for your business planning purpose, you assume a 15% to 20% growth in that. What is the assumption that you're baking in for the PTL business from the base that you have now?

SAHIL BARUA:

On the PTL business, Pulkit, we don't worry about forecasting market growth in any way because as I mentioned, the big move is not growth of the underlying market but the big move for us is continuing to gain share from unorganized players and even from some sort of the less aggressive organized players to some extent. So, we don't forecast market growth whatsoever. In general, if you look at it, PTL industry across the world, and India is no different, tends to grow at a couple of percentage points higher than nominal GDP growth rate. There's of course another big shift in the Indian market overall, which is a shift from Full Truckload towards Part Truckload in certain kinds of sectors. And as roads get better, as truck formats start getting larger, I think people are discovering that the cost of holding inventory for certain kinds of inventory is higher than the cost of transportation. So, there's a large secular shift towards PTL as well. So, I think if I had to project this for the industry, I would assume that PTL industry growth rates would remain in sort of that high single-digit 9%-10% or low double-digit kind of rates for the foreseeable future.

But from a planning perspective, that's not how we look at designing the network. It's not driven by the market; it's driven by a couple of things. One is we look at where we are seeing significant customer growth. So as an example, we consolidated facilities in Chennai because we realized that we were seeing significant customer demand from Chennai outbound to the rest of the country. And so, we decided to build capacity in the city. Typically, we build capacity with an initial view that we are willing to go to a minimum of sort of 33% kind of utilization for the facility. But as I mentioned, capacity definitions also change with time. And so, it turns out that we have more capacity very often than we originally planned, as we engineer better. I don't know if that answers your question, but that's how we plan.

PULKIT PATNI:

But no numbers, no range that you can give for your internal planning for growth for this segment?

SAHIL BARUA:

Not really because of the fact that capacity is relatively a malleable concept, it's not very easy to say exactly what we would plan. I would be very happy if we grew our PTL business 30% next year if it were to happen. Do we have the opportunity to grow above 30%? I think the market certainly supports it. We have the capacity to support it at this point in time, but we'll see there are a number of factors that come into play.

PULKIT PATNI:

Understood. That's helpful. One question for Amit. Amit, after Lonad and the facility in south India, till what time can we expect no significant expansion from us? Or how are we placed in terms of available facility capacity over the next, say, 12 to 24 months?

SAHIL BARUA:

I think I'll take that instead of Amit. The simple answer is, we don't expect any other significant mega facilities to go live anytime in the near future. The three biggest origins in the country are Tauru, or rather Gurgaon in the North, Bhiwandi and Bangalore. These are also geographical node points, and so it makes sense for us to have the megas here, so we don't anticipate any similar sort of large facility coming up in the near future at all. That said, I think there will be minor capacity upgrades that will happen in a couple of key cities. I think a couple of the key cities that we're seeing which are growing larger, one of them for us will be Chandigarh, one of them for us will be Chennai. I think we will see some capacity expansion potentially in the East, but these will all be relatively minor. There's one key decision point which we will take later through the financial year, which is whether we want to expand our facility in Noida or not. But we're not at that stage at this point in time and if you were to ask me, I think we're very well covered across the NCR region, but depending on how volume growth happens over the next couple of quarters, we look at Noida. So, nothing very significant planned. There will be minor capacity upgrades, these are all BAUs. For example, we have two facilities in Pune. We have to combine them into a single facility. In some places like Siliguri, we have to go from being non-TT enabled to being TT enabled. These are not significant capital outlays.

PULKIT PATNI:

Got it. Thank you so much for those answers.

MODERATOR:

Thank you. We'll take the next question from Aditya Mongia. Aditya, request you to please unmute your line.

ADITYA MONGIA:

Thank you for the opportunity. The first question that I had, was actually more an observation and wanted to take Sahil's comments on this. Most of your peers in e-commerce logistics typically are seeing a deterioration in profitability with strong growth, whereas you, let's say, in this quarter, have shown the complete opposite.

Given where we are in terms of healthy margins, does it make sense for us to get more aggressive on pricing at this point of time?

SAHIL BARUA:

I think the short answer is, to what end? As I've mentioned in the past, pricing is a complex overall strategy and decisions on pricing are taken at a client account level. We have target cost margins and target EBITDA margins for every account. And as I mentioned, shippers like Ecom Express or Xpressbees or whoever else who are relatively dependent on e-commerce have relatively little tactical flexibility when customers demand unreasonable prices. And also, the inability to sort of cross utilize their network does create certain challenges. If anything, I forecast that for most of the industry, you are going to see an upward sort of pressure on yields for most of our competitors. From our standpoint, the logic is very simple. At the pricing that we provide, we make money. In our view, most of our competitors are incapable of making money at those price points. That is not for any other reason than the fact that their underlying network doesn't support it.

Were we to drop prices further, I don't think it would make a structural difference to the industry just yet. We can continue to wait and hold our prices. Look at how pricing pressure plays out on our competitors over the next year. And I think some of the listed players have already signaled that they intend to pass on generalized price increases through this year. Delhivery strategy is not to do so. And when we have sufficient sort of confidence that we have even higher incremental gross margins that are available to pass on, we'll do so. So as our PTL business grows, and as we continue to gain scale in the overall combined transportation network, we may well go back and say that, look, we'll pass further price benefits to our customers, but there's no generalized strategy that one can make over here.

And apart from that, Aditya, since you've covered this in the past, I think the fact of the matter is, I don't believe that people who are running, for example, self logistics operations, if they were rational about price, they wouldn't run their self-logistics operations at all. You wrote a report on this and you can see that the cost of their logistics is significantly higher than the price that we provide to the market.

So, in that environment, when your principal is not acting as an economically rational agent, it doesn't make sense for you to drop price.

ADITYA MONGIA:

Understood. The second question that I had was more on corporate expenses. Now they've become, I think, sub 10% again, the way they were two years back, when we were doing great on volumes. Are there levers to pull from here on, or should we expect more stable numbers as a percentage of sales from here on?

SAHIL BARUA:

Yeah, I think you have to look at the absolute number rather than the percentage, because the percentage is just the absolute divided by revenue. Overall, corporate expenses have remained stable at that Rs. 210 crore kind of mark on a quarterly basis. I think in Q1, we will anticipate a small amount of wage inflation which will come in, which is sort of normal for the year. But broadly speaking, I don't anticipate any structural changes to our corporate expenditures. We have no significant hiring that we need to do to expand the business, not even for fiscal '25, and frankly, not for beyond. Obviously, when we had come to the public markets, I think we had come as a fully formed company with the ability to grow fairly fast. So, I don't anticipate that happening. Wage inflation will remain within normal bounds overall, and I think our overall ESOP expenses also, as you can see, have started stabilizing, and I think that will continue.

The only area where we do anticipate a small amount of additional investment through the year will be that you will see a little more spend from us on overall visibility and marketing, which is essentially to enable our field operations teams which are out selling in the additional 80 cities, to get more visibility and sort of as a general boost for them. So, there'll be a minor increase in marketing expenditures. But nothing else. Corporate expenses should broadly remain stable.

ADITYA MONGIA:

Thank you, those were my questions. All the best to the team.

MODERATOR:

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

LOKESH MARU:

Thank you. Sir, my question is more on utilization. Thanks for an elaborate answer before, but just two, three things I wanted to clarify. One is on utilizing the existing fleet better in terms of volume throughput, did you say 60% or 63% is where we are in terms of CFTs, and there is more room to grow from here for that, that is possible?

SAHIL BARUA:

Sure. Yeah, Lokesh, there are two kinds of utilization, let me be clear. One is the number of kilometers that you drive and the second is utilization of the individual containers aggregated over all of the trucks. I think the bigger driver for us will come from better utilization of the containers at this point in time. We're already driving a significant percentage of total kilometers using TT as I mentioned, we've gone from 20% to about 63%, 64%. I think there's a limit to how far that can go, we'll probably get to through this financial year we should hope to get to somewhere between, let's call it 70 odd percent, 70%-72% of total CFT kilometers getting driven on TT. But that will also depend on volume mix, hubs getting ready, etc.,etc.. So, if you're looking for this as an input to a model, I'd say be a little careful, but it will certainly go up from 62%. The more important thing, of course, is the utilization of the axle load carrying capacity. Two things will influence that. One is just a sheer densification of loads as we do more PTL volumes. PTL volume by nature is denser than Express volume and so with more PTL volume going into the trucks, the average axle load on every truck will increase. The second is a careful client selection towards higher density clients. I think that is something that's been a strategic focus for us over the last seven quarters, that will continue. It's only because you take the higher density clients that you can really effectively service the lower density clients and that's something that's been par for the course for PTL companies for years. We know we're catching up to that, we'll continue to do that. So, client selection is the second and the third is really where Delhivery derives its competitive advantages from, which is the technology that enables you to stuff trucks better. So that is something that we've invested in. We already have systems which guide exactly what loads go on to what trucks and on to what containers. So far those have been time optimized. As the network becomes more stable, we will also utilization- optimize and that's something our systems have the capability to do. So again, very long answer to your question. If your question is - will we continue to see improved utilization in the mid-mile network? The answer is that's a key strategic focus for fiscal '25.

LOKESH MARU:

Sir. And just to clarify on mid-mile since we give away the vehicles rental cost, expenses, and contractual manpower separately, so does it mean that line haul cost only includes the diesel prices. And apart from that, what else?

SAHIL BARUA:

No, I'm sorry. The vehicle rental expenses are third party fleet that we contract for intra city operations. The tractor-trailers and all of these are reported as part of freight handling expenses. But Amit, you can provide the exact.

AMIT AGARWAL:

Yeah, so vehicle rental expenses are for all intra-city vehicles. These are wet leases where we pay for fuel, the vehicle body, driver route expenses, toll charges, everything put together to third parties as a consolidated expense. It also includes payments to third parties who do pickup deliveries for us in our LTL business. That is what primarily is in the vehicle rental expenses. It also includes the payments to last mile deliveries done by the third-party agents on a per-parcel basis for us. That is what is in the vehicle rental expenses. In the line haul expenses are all your payments to third-party vendors for vehicles which are again wet-leased from them. Almost 60% + of the line haul is still operated by third parties, whether they run tractor-trailers for us or they run non-tractor-trailer vehicles for us. It also includes the consumables, bags, bolt seals that are used to lock the trucks, AMCs, repairs for all the trucks that we operate, plus fuel, toll charges, driver expenses, etc, everything included in it for our own trucks as well. Only part which would be in the bottom below that line item is the depreciation of those trucks, which I mentioned is the mid-teens crores per quarter.

LOKESH MARU:

Okay, so for the tractor trailer part, since overall, from fleet size we are at 13,000 already. Given our growth rate this could again go to 18,000-20,000 maybe as we go ahead, three years down the line. So, from demand and supply, since we are the largest company operating in the space and since we require 40ft, sorry, tractor trailers, which is a specific demand, so is the supply ready on that front and terms of trade, are we prepared to turn it in our favor in a way that there's no shortage and spike in the leasing cost of these. So how are we preparing to expand our fleet economically is my question.

AMIT AGARWAL:

So, we do not operate 13,000 tractor-trailers. 13,000 is the total number of, four or more types of leaner vehicles that operate in our entire network across all lines of businesses. These could include vehicles involved in pickup, delivery or carting between multiple centers within the same city. And the intercity vehicles as well. The total number of vehicles which are deployed in the intercity operations are close to about 2,000 odd vehicles. And out of which we have about 750 to 800 odd tractor-trailers, which are the 43-46 feet vehicles. And out of these 750 to 800 vehicles, slightly more than 50% of them are owned by vendors of the tractor, and the trailers are 100% owned by us, because the trailer is a detachable unit which can be attached to any tractor. From the supply availability standpoint, I think Sahil mentioned this earlier in the call that we are very well placed to acquire the capacity or the supply of these tractors and trailers as and when required in the next fiscal year as well.

MODERATOR:

We'll have the next question from Shikhar Gupta. Shikhar, please go ahead.

SHIKHAR GUPTA:

Hi. Thanks for the chance. Congratulations on wonderful numbers. My question is regarding the OS1 platform you've recently onboarded, Akshaya Patra. Can you throw more light on how this business is taking shape as a global SaaS business? And when can we see a significant revenue contribution from this business say 5% to 10%?

SAHIL BARUA:

Sure. Shikhar, thank you for the question on OS1. We're a little ahead of schedule. Our plan was that in Q4 or in the early part of the next financial year, is when we would start really operationalizing the system. Fortunately, we had this fantastic opportunity to work with the Akshay Patra team and really deploy DispatchOne for their kitchen-to-school delivery operations. The reason we chose Akshay Patra was really because they are actually, interestingly enough, a significantly large logistics operation. And so it allows us to test one at scale. The good news is, I think the tests have been hugely positive so far, both for Delhivery and I think more importantly, for Akshay Patra. And so now that we have testing of this at scale, there's a lot more confidence to go out and sell this to external customers. DispatchOne and TransportOne, are the first two services that will be available as part of the OS1 platform. DispatchOne is a last mile delivery application which is fully configurable for any form of shipper. So, for example, if you are a large grocery chain which wants to offer your own delivery, you can use DispatchOne.

If you're Akshay Patra, for example, obviously doing kitchen to school delivery, you can use DispatchOne. If you're a FMCG distributor and you actually want to track delivery operations to retail, you can do that using DispatchOne. So the number of applications is pretty significant. We're starting to meet customers across the FMCG pharma space in India already.

The next step for us, of course, will be to look at expanding Salesforce. This is not a significant salesforce, of course, but a small SaaS salesforce in a couple of key international markets. One of them obviously will be the US, since that is the largest market from a SaaS standpoint and also where we think there'll be significant appreciation for the DispatchOne product. And the second will be the Middle East.

TransportOne, which is the second application, is essentially a full-fledged transportation management system, which again, is aimed at any enterprise in the country to manage outbound delivery operations, whether that happens through Full Truckload or through Part Truckload. And the value proposition is that it will be fully integrated with Orion, which is our trucking marketplace. And so essentially shippers can simply switch on via TransportOne access to what is one of the largest trucking marketplaces in the country. I think TransportOne monetization should begin in Q1 of fiscal '25. Now, in terms of your question, whether 5% to 10% of a logistics company's revenue will be SaaS revenue, if we can build a SaaS business which is 10% of our logistics revenues, I think that would make us the largest SaaS business in the country in five years. So that's not necessarily our immediate aim. I think we do anticipate starting to monetize in Q1 of fiscal '25. And we expect OS1 to slowly ramp up in revenue terms over fiscal '25 and fiscal '26.

SHIKHAR GUPTA:

Alright, Thank you

MODERATOR:

We'll have the next question from Ankit Agarwal. Ankit, please go ahead.

ANKIT AGARWAL:

Yeah, thanks for the opportunity and congratulations on a great set of numbers. I have one question on yield per parcel. So, in the last quarter you mentioned that most of the players in the logistics space have taken some price hikes, while you have not taken any price hikes because of the operational efficiency that you guys are benefiting from. So just wanted to check, is there any price hike that we have taken in this quarter? Just wanted to understand. Trying to understand what is the nature of this increase? Is there any other element apart from the festive impact like the increase in distance or so? So just wanted to get your sense on the yield per parcel thing.

SAHIL BARUA:

Sure. Very short answer is that the impact on yield that you can see in Q3 comes from both weight and from an increase in distance. And of course, a change in customer mix underlying. But the broader question strategically, I think we've been very clear about this, and I'll restate it, is that we do not believe that our customers are best served by logistics companies passing on inefficiencies in the form of price hikes. I think the industry will face upward pressure on pricing because of course, the fact of the matter is none of us is immune to the forces of inflation, but our ability to absorb that with improved network engineering and through better technology will ensure that we don't have to pass those price hikes on. We have no desire or any sort of plans of passing on generalized price increases to customers anytime in the near future.

ANKIT AGARWAL:

Got it. Sahil Thanks. And the second question is on the profitability. First of all, many congrats on reaching the PAT profitable number as profitable at a PAT level.

So just wanted to get your sense as in how we should look at it, as in going forward. Do you see the EBITDA margin number or the adjusted EBITDA margin and profitability at a PAT level to sustain or improve from here onwards, as in for the next quarter and FY'25 perspective. So any guidance or view or color on that front will be great Sahil.

SAHIL BARUA:

I think you should look at the PAT number for this quarter in the same manner as the management team, which is with satisfaction. But I don't actually want to provide any particular guidance going forward into fiscal '25. The reason, as I've mentioned, and I do want to, it's actually in some senses a good, nuanced question, which is we are operating in a gigantic market. In India, as I've mentioned multiple times, the total spend on logistics is $140 billion in revenue. At this point in time, I think there will continue to be volatility overall in the company's revenue and margin profile in the narrow term. The important thing that this quarter proves is that the model works. As a question was asked earlier. If you can see, despite the fact that we're doing 90,000 tons of freight less than we were doing two years ago, our profitability in this quarter is higher than it was two years ago. And I think there have justifiably been questions about whether the integrated network works, whether the tractor-trailer strategy works, and I think this quarter provides fairly resounding proof that it does. Of course, our incremental gross margins have done that for the last seven quarters. But in terms of PAT also, I think this provides sufficient relief.

I wouldn't use this quarter necessarily to go ahead and forecast sort of a linear and upward swing in margins forever. I think there will be quarters where we will expand capacity. There will be quarters where demand will be affected by factors that are beyond our control. And at that point in time, there may be swings that will happen in profitability, there may be swings that happen in revenue as well. But I'm fairly certain that if you were to look at delivery over the long arc of time, I think you will find that we will achieve our overall revenue and our profitability targets. I have mentioned in the past that we believe that stable transportation margins sit in the range of 16% to 18%. I see no reason to believe that will be any different. And as our engineering capacities grow more formidable, I think we'll have the ability to generate excess margins as well. But please don't use this quarter as sort of an immediate way to model the rest of the next near-term quarter, six quarters, or whatever it is. I think the market will evolve. There are many forces that are beyond Delhivery's control and we will respond to them appropriately as they come up.

ANKIT AGARWAL:

Got it, Sahil. Thanks a lot for the answers.

MODERATOR:

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

SHRINIDHI KARLEKAR:

Yeah, hi. Thank you for the opportunity. Sahil, just one question from my end. You highlighted that the dynamic routing is one of the reasons for reduction in our line haul cost, particularly in this quarter. Wondering, would it be possible to give some color on how this benefit scales up as the size of the business goes up? If you assume a hypothetical situation like, the scale of the business becomes like 2x over the next three to four years, how much more savings is possible because of dynamic routing?

SAHIL BARUA:

Yeah, I think it's a little more complicated than that. The dynamic routing capability is one of the various integrated processes which allows us to generate excess efficiencies in the mid mile operation. It's not just dynamic routing by itself. It is a combination of how we rotate tractor-trailers. It's a combination of, of course, the engineering within the hubs and the automation within the hubs when coupled with dynamic routing, I think there is value that is delivered.

To give you a simple example of why dynamic routing makes a difference, let's say, in a universe where there are only two trailers, if you were to have 1.3 trailers of load, you could either run your aggregated trailer network at 65% utilization or you would have to make a minimum of 30% of your loads wait until they end up filling up completely. And this is if you run a classic hub and spoke direct point to point network. The advantage of the Delhivery network, because we do not run a direct point to point network and we run a mesh network, is that we can afford to route through alternate paths that offer us higher utilization without necessarily compromising on delivery time. Even if we can't go from 1.3 truckloads to a full two truckloads, we can certainly go from 1.3, for instance, call it to 1.6 or 1.7 or 1.8. The impact on forward lanes very often is not as significant because the directionality of traffic. Let's say you're going from Delhi to Bombay. You'll always have a very large amount of load that's moving direct from Delhi, Bombay, and you'll have reasonably high utilization. So, you might have even full tractor loads, and the second tractor load being, let's call it 50%, but that's still a very high aggregate utilization.

Where this starts becoming interesting is the number of secondary routes that we can make viable at constant speeds. And of course, on the return routing, where traditionally people might be routing a truck, or essentially deadheading, as it's called. Deadheading kilometers for people might be a very significant percentage of total route length. For us, deadheading kilometers will typically be much lower, and reducing deadheading kilometers across the network, or reducing deadheading CFT kilometers across the network is sort of the objective function of the optimization algorithm. So very hard for me to give you a specific answer saying if tractor trailer grows 10%, line haul cost comes down 6%. I think it's a little more complicated than that. But as I mentioned, if you look at the last seven quarters, you get a very clear picture of how a combination of tractor trailer automation in the hubs and dynamic routing has made a difference to line haul costs.

SHRINIDHI KARLEKAR:

Right. But is it fair to say, like the deadweight kilometer, just thinking from a scale point of view, ability to reduce, that goes down as scale goes up further?

SAHIL BARUA:

Incrementally, it will. As with all things, there is a diminishing marginal utility as you get larger that will continue. But I think the important thing is not whether our ability comes down over time, but whether that ability can be replicated at all. And in the absence of the investments that we have made, it cannot be replicated at all.

SHRINIDHI KARLEKAR:

Thank you for answering my questions and all the very best.

MODERATOR:

We'll have the next question from Nilesh Saha. Nilesh, please go ahead.

NILESH SAHA:

Thanks a lot for just giving very deep and detailed answers. Right. It really helps us to both understand and appreciate what you guys are building. But more important than that, your thought process, right. Just to further extend on that I wanted your perspective on two things. First, some comments on what is your sort of Adjusted EBITDA Margin for the PTL side, right, you can comment on how it has moved over the last few quarters as you have stabilized PTL, first? And second, and perhaps a bit more important than that, than the margin, because margin is also a function of the realization, which is a function of the customer mix, which you are trying to change to an extent, is what's your cost structure on PTL on a per ton basis? The perspective I want to understand from you is that as you put your PTL volumes on the tractor-trailers where you have a sort of base load from Express, obviously that cost is lower. But than your other peers who are not using tractor-trailers, but beyond that sort of mid mile cost where you are clearly a leader, what are the other costs in PTL and how would you rate yourself versus some of the other industry players on the PTL side? That's all from my end. Thank you.

SAHIL BARUA:

Sure. Understood. Thank you, Nilesh. This is going to take a little bit of time. So the first question is, what is the adjusted EBITDA for the PTL business over quarters? And sort of how that has been trending. While we do not release adjusted EBITDA by business line, one of the reasons, of course, is that at this point in time, I think a certain amount of, how shall we put it, confidentiality around our segmental margins is something that we deem as strategically important. But more importantly, there is an element of allocation between the two businesses, which of course, remain consistent over time, but it makes it a little difficult to compare, therefore, our PTL margins versus our competitors, who might be either Express only or PTL only.

But let me begin with some concrete statistics. I think, first of all, without getting into the details of the gross margin level in our PTL business, if I look at the last seven quarters, we were at our trough during the first quarter of fiscal '23 when we began the integration of SpotOn with Delhivery. Over that period of time, our PTL gross margins have expanded by, if I'm not mistaken, nearly about 15% from Q1, fiscal '23 to where we are today. And I think our EBITDA margins would have expanded by a similar amount since there hasn't been that much network expansion. Amit is just pointing to me that the service EBITDA margins in PTL have increased by more than the gross margin increase. The incremental margins in the PTL business, fortunately for us, and atypically for the industry, are similar to the incremental margins that we have in the Express business. So, we do continue to see 40% plus incremental margins in the PTL business, and that will continue. The reason that continues is because our network over a period of time has gone from an Express denominated network to a PTL denominated network. The extent of tonnage that we carry on the PTL business is significantly higher than the overall tonnage that we carry in the Express and heavy networks put together. And therefore, that really is the determining design feature. And so, as PTL volumes go up, we expect incremental margins to continue to go up. Which brings me to your second question around cost structure per metric ton. I think our cost structure per metric ton in the mid-mile is lower than our listed competitors, for sure. We do track this on a quarterly basis.

The second part of your question was how will we find efficiencies elsewhere? We will continue to find efficiencies elsewhere. They're relatively simple efficiencies, which are around better utilization of space and higher productivity of the manpower that we employ. That is largely being done essentially through more automation and better technology. So, to give you an example, our freight handling cost has come down significantly with the use of our automation systems. And as we continue to bring in more technology across all of our hubs, we expect handling to come down, which is the second big component of cost. And the third piece will, of course, be, as we generate more load, mere throughput will ultimately increase, which will be a generalized scale benefit for Delhivery, as for anyone else.

But the big focus, Nilesh, in mid-mile, especially for PTL, is, and why we keep harping on it, is because mid mile is half of the cost of a PTL network. And so that's really where you want to attack to begin with. Of course, over a period of time, as we get larger, we will find opportunities to continue to engineer at the first and the last mile. But when we look at where there is the maximum point of leverage for the company, that is in the mid mile. And so that's why our focus will remain there in terms of comparison to our competitors. While we do have a lower cost on the PTL side in the mid mile, I think it's also dependent on industries people service. There are customers in specific industries that Delhivery doesn't service, which our competitors do service. We don't carry certain kinds of form factors. And so, our mid-mile costs, in some senses, won't be very comparable because it really depends on what they carry. If you're delivering, as an example, at a certain point in time, we used to carry ATM machines and decided not to, people who carry ATM machines will have very different mid mile structure compared to ours.

NILESH SAHA:

Right. Okay, great. Yeah. Just simple follow up. Just clarifying what you said. You said that you are confident that your mid-mile cost is certainly better than other listed or other larger express PTL players, right. That's a fact, as per your understanding. But on an overall basis, is your cost still not there? So then to that, that's where my question is that what are then the other cost, rights. So I've actually been to your warehouse, right, and what I saw there is a lot of this automation is primarily oriented towards sortation of Express parcels which are smaller, right. But as you yourself explained, PTL parcels have different form factors and may not be amenable to such easy sortations. So that's precisely my question, that beyond the mid-mile, where are the other cost gaps versus the general PTL industry?

SAHIL BARUA:

I think the incremental gross margin does answer that question. The simple fact is the additional cost improvements for us will come with greater throughput if we are capable at this point in time of handling significantly higher tonnages than the 360,000 metric tons of freight that we did in Q3 of fiscal '24. Now, if we were to handle 450,000 tons of freight, as I'd mentioned, that's 90,000 additional tons at even a not very great yield of, let's call it Rs. 10 is Rs. 90 crores of additional revenue at an incremental gross margin of 40% is Rs. 36 crores. That goes to the bottom line. And the overall profitability of the business looks very different. So, there isn't anything significantly different in the cost structure at the first and the last mile.

And also on the sortation, since you brought it up, I think that actually isn't correct. Over a period of time, a larger percentage of our focus is on automation, and remember, automation is not just a question of buying conveyor belts, it's a question of what you do with the conveyor belts. When you see 240,000 packages which are small, flying around on a conveyor belt, it of course looks like it's more complicated than freight moving on relatively slow-moving conveyor belts. But I can assure you that the automation investments are not so much on the parcel sorters and more on actually the freight sortation, which is harder, as you pointed out, because you're dealing with a hard factor. So that's where there is a difference. When handling comes down, it's not just the utilization of people. The other thing, of course, is consequently losses and damages also come down because you don't have people chucking freight around. It's all moving on. That's why we get the efficiencies.

NILESH SAHA:

Great. Thanks a lot.

MODERATOR:

Thank you. We'll take that as the last question. Request 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 its earnings call. Over to you, Sahil, for any closing remarks.

SAHIL BARUA:

Thank you, Macquarie team, and thank you, all of you, for joining the earnings call. As I'd mentioned, it's been a good quarter for us. Overall, very satisfactory as a management team. We're glad that we've had our first PAT profitable quarter and our highest adjusted EBITDA margin on our highest revenue in Q3. And satisfactory while it is, and we do anticipate that we will continue to do well as a business, I think the broad message is that we do expect also that the market will continue to remain, for lack of a better word, interesting over the next couple of quarters and hopefully we'll be able to continue to provide this kind of detailed guidance as things evolve going forward. So great, thank you. Thank you all for joining.