Date: June 3, 2022

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

Scrip Code: 543529

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

Symbol: DELHIVERY

Sub: Transcript of Earnings Call pertaining to the Financial Results for the quarter and year ended March 31, 2022

Dear Sir,

This is in continuation to our earlier letter dated June 1, 2022 regarding audio recording of the analysts/investors Earnings Conference Call held on May 31, 2022 at 4.30 P.M. (IST) on the performance of the Audited Financial Results of Delhivery Limited for the quarter and year ended on March 31, 2022.

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

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

You are requested to take the same on your record.

Thanking you,

Yours faithfully,

For Delhivery Limited

SUNIL KUMAR
BANSAL

Digitally signed by SUNIL KUMAR BANSAL
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street=Second Floor,SW-50, Starwood. Malibu Town, Near Good Earth City Center, Sector - 50,
serialNumber=e1b5caf2ee74555885fe1e33615a0dcad915d4d344573ce0eb31a0521af9ff23, o=Personal, cn=SUNIL KUMAR BANSAL,
pseudonym=61d3cc1a94a361ba0e592dec4e373550
Date: 2022.06.03 18:33:09 +05'30'

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

Place: Gurugram

Encl: As above

Transcript of Delhivery Ltd. FY22 Earnings Call
Time: 4:30PM; Date: May 31, 2022

Delhivery Management: Sahil Barua MD & CEO), Sandeep Barasia (ED & CBO), Amit Agarwal (CFO)

Moderator: Sougata Basu, Head of India Equity Sales, Citigroup Global Markets

Sougata Basu:

Thank you everybody for joining on behalf of the Citi Equities team. I welcome you all to this first earnings call of Delhivery to discuss its financial results for the quarter, and the financial year ended March 31st, 2022. From Delhivery's management team, we are joined today by Sahil Barua, Chief Executive Officer, Sandeep Barasia, Chief Business Officer, and Amit Agarwal, CFO. Before we begin, a few announcements for all the attendees, this earnings call is meant only for the existing holders of Delhivery, for potential investors, and for research analysts to discuss the company's financial results. This call is not for media personnel. If any media representatives are attending this call, request you to kindly drop off the call at this point. This call will be recorded. It is scheduled for 60 minutes and we'll have a short presentation by the management team, followed by Q&A. For Q&A, there are two options.

You can use the chat box on your screen to enter your questions, which we will encourage. Otherwise, if you want to also ask management live questions, you can use the raise hand feature, and we will ask you to join the queue. We will unmute your line and we'll take your questions in the respective sequence. Please ensure your name is visible as first name, last name, followed by your organization name for us to be able to identify you before we take your questions. With this, I would like to request Sahil to kindly initiate this earnings call. Over to you Sahil.

Sahil Barua:

Thank you. This is Sahil Barua from Delhivery. A quick check that I'm audible.

Sougata Basu:

Yes, sir.

Sahil Barua:

Thank you. Welcome to all of you, and thank you for joining our first earnings call as a public company. We're very excited to have you all here. The way we'll do this is to do a short presentation from the company for about 25 minutes and then open up for Q&A.

Sahil Barua:

So, the idea behind Delhivery fundamentally is to build the operating system for commerce in India. By this, we mean we provide the logistics services, the infrastructure, and the technology, that allow buyers and sellers to transact with each other. These buyers and sellers could be businesses transacting with other businesses, businesses transacting with consumers, or consumers transacting with consumers, both within India, or from India to the rest of the world, or the rest of the world to India. Where Delhivery has reached today in 11 years, a quick snapshot follows in the next slide today.

Delhivery is nearly a billion dollars in revenue as of financial '22 with total revenues of about Rs. 7,240 crores. We are the fastest growing and the largest logistics platform in the country, having grown at nearly 60% annually between financial '19 and financial '22. More importantly, while revenue growth has been robust and revenue diversification has been robust, the business has also broken even as of financial '22 on an adjusted EBITDA margin level with an adjusted EBITDA of 1% for financial '22. Since we've launched, we've delivered over 1.4 billion orders as part of our express parcel delivery business, which is the largest segment within our overall revenues, which gives us a market share of between 24 and 25% in the e-commerce parcel delivery market, making us by far the single largest independent third party service provider in this space. We service over 20,000 customers across our different business lines.

Nearly 60% of our revenue today comes from customers who buy more than two services from Delhivery. Apart from our express delivery business, we've also delivered over 2 million tons of part-truckload freight, and post our integration with Spoton Logistics, which we acquired last year, we are now also the second largest express part-truckload freight network in the country. Our network is a unique mesh, which is fundamentally different from classical hub and spoke models run by other logistics companies across India and the world. It is powered by over 80 technology applications that have been built on a proprietary logistics operating system and platform, and that is powered by vast amounts of data. Our network covers over 18 million square feet of logistics infrastructure, which includes fulfillment centers, automated sortation centers, hubs, processing centers, returns, gateways, and delivery stations. And we cover over 18,000 pin codes across the land mass of the country.

A quick introduction to our team. We have an experienced management team, Sandeep Barasia, Kapil Bharati, Amit Agarwal, Ajith Pai, Abhik Mitra from Spoton, Pooja Gupta, who's our CHRO, and Suraj Saharan who have been running this company for several years, and an experienced Board. The Independent Chairman of our Board is Mr. Deepak Kapoor who used to be the head of PricewaterhouseCoopers in India. And the rest of our Board brings significant experience in running public companies across different sectors of the economy.

A quick background on Delhivery, we consider ourselves today to be in our fourth generation of evolution as a company. Between fiscal '12 and '14, when Delhivery began, we consider that to be our first generation or our MVP generation. This is when we began our operations as an express parcel delivery company, launched early versions of our warehousing software and our warehousing operations, and put in place the building blocks of the technology systems that would then guide our mesh network, which is our proprietary Addfix and Netplan platforms. In our second generation between fiscal '14 and fiscal '16, the objective for Delhivery was merely to scale the existing network, as can be seen by growth in our revenues from Rs. 60 Crores to nearly Rs. 500 Crores in this period. This was also the time when we began automation of our network heavily, building out 13 automated sort centers, at the time significantly larger than any of our competitors in this space, and ahead of the rest of the industry. In our third generation, from fiscal '16 to fiscal '19, we began to introduce third party partners into the Delhivery network, having established quality standards for operations, and also launched new services, which included our part-truckload services business and our cross border services business, which share infrastructure, assets, people, and technology with our core express network. And finally, in our fourth generation from fiscal '19 to today, we've been focused on expanding the overall platform, bringing in more partners, and launching new services, as evidenced by the launch of our supply chain services division, our truckload services division, our Delhivery Direct and franchise divisions, and the launch of our Seattle office to open out Delhivery's technology to third party developers and other logistics companies around the world.

A quick background on the market that we operate in. In terms of industry outlook for logistics overall, market conditions, as you're aware, continue to be challenging. Geopolitical conditions continue to cause significant disruption to the logistics industry. In India while the secular growth of e-commerce has continued, we expect there to be certain disruptions to operations of individual players due to volatility in demand coming from rising customer acquisition costs. Input cost and fuel inflation does continue to affect consumer sentiment. However, in our view, this is unlikely to have a large impact on non-discretionary logistics spends. And with an increase in input costs, we also expect in the medium term there to be an impact on wage inflation, and a corresponding talent shortage that will affect not just logistics companies, but companies across sectors. Outside of which climate change continues to cause significant disruption to operations of logistics companies around the world and in India.

However, in terms of significant tailwinds, the regulatory environment for logistics in general in India has continued to improve in the last decade. Logistics has been accorded infrastructure status and there is continued improvement of road, air, and rail infrastructure. Government reforms like Make In India, and PLI schemes are ultimately driving non-discretionary demand for logistics services. Rapid adoption of digitization through GST, e-way bills, EPOD, and E-invoicing, is helping reduce overall inefficiency costs for logistics companies and shippers alike. New axle load norms, which enable higher gross vehicle weights have allowed us to increase utilization of trucks in the last two years. And new initiatives by the government such as ONDC and the data privacy law in our view will ultimately drive merchants to have more direct relationships with logistics partners.

The large opportunities in logistics continue to remain intact. We continue to see an increase in online purchase frequency among regular users of e-commerce. We see rising e-commerce penetration in tier three and four cities, and further expansion of the market through introduction of new categories. In the larger logistics market, which is the traditional offline logistics market, M&A continues to be a theme, which is driving consolidation and efficiency across the industry. This is also being driven by behavior of large enterprise customers who continue to demand working with organized players and consolidating the number of logistics companies they operate with. And also a greater demand for integrated supply chain services, where there is a shift towards 3PLs and end to end supply chain visibility compared to an earlier environment in which enterprises bought different logistics services from different companies. And finally, the larger logistics companies in India will continue to drive relative efficiency gains versus the unorganized space through the development of new automation systems that drive operating leverage and service enhancements.

In this environment, a quick snapshot of Delhivery's growth since we began, we are today the largest and the fastest growing logistics company in India, as evidenced in this slide. We are growing at close to 60% annually, which is six to eight times the speed at which traditional logistics companies in India have grown.And have reached an overall size of Rs. 7,200 Crores. Most logistics companies in this period have been growing at more or less the nominal GDP growth rate of 9.5%. So, Delhivery is not only the largest and the fastest growing logistics company in this space, but the size of the bubble, which indicates total cash reserves, indicates that we're also among the best capitalized to invest in future growth.

A quick snapshot of our revenues, we've grown to Rs. 7,200 Crores as of financial '22 at a CAGR of about 64%. More importantly, revenues have diversified rapidly in this period. As of fiscal '19, nearly 80% of our revenues came from our core business, which was the express parcel business. Today, 58% of our revenue comes from our express parcel business, which continues to be the core business for Delhivery and is growing at about 45%.The 42% of our revenue that comes outside of express, over half of this comes from our new division, which is the part-truckload freight business, which has now emerged as our second largest engine for growth. And which is growing at close to about 130% a year. And the remaining 18% of our business comes from other businesses which include supply chain services, full truckload services, and cross border logistics. This has been driven off the back of secular volume growth across the two core businesses, which are the express parcel business and the part-truckload freight business. As of financial '22, we had delivered 582 million express orders in the year, a growth of nearly 100% from financial '21. Bear in mind that the underlying e-commerce market grew at between 35 and 40% in the same period. And so, what you're seeing is a massive increase in Delhivery's share of the market between financial '21 and financial '22 as well.

In the part-truckload business, we have grown from a standing start in financial '17 to become the second largest express part-truckload player in the market today, delivering close to about 1.6 million tons of part-truckload freight across the country in fiscal '22 with the Delhivery and Spoton networks combined.

A quick look at the key operating metrics. Our pin-code reach has expanded to 18,000 pin codes across the country as defined by the India Post. Through our new strategic partnership with FedEx, we now service over 220 countries across the world. So, Delhivery's customers in India can access all of FedEx's networks across the entire world. We service over 20,000 customers across our different business lines. And as mentioned earlier, close to 60% of our revenue comes from customers who buy more than two services from Delhivery. Our network spans nearly 18 and a half million square feet of real estate which is split across 123 gateways, 21 automated sort centers with a total capacity of nearly 4 million sorts per day, 178 processing centers, and 3,000 express delivery network points, along with 270 freight service centers, making us one of the largest physical networks in the country.

The Delhivery team is over 60,000 people spread across this network, with an additional 1,220 partner Delhivery centers, 34,000 partner agents, and a fleet of over 9,000 vehicles operating daily. Our improvement in productivity is also visible in the last three metrics with revenue per person, having improved from Rs. 7 lakhs per person in financial '19 to Rs. 12 lakhs per person in financial '22. Revenue per square foot in transportation has improved by nearly 20% from Rs. 4,300 per square foot in fiscal '19 to Rs. 5,100 in financial '22. And revenue per square foot in warehousing has increased by nearly 30%, from Rs. 379 per square foot in financial '20 to Rs. 495 in financial '22.

A quick snapshot of the operations of our network. We have one of the deepest and widest networks, and our mesh allows us to connect each one of our network points across the country daily. Our surface network has 2,023 different connections that connect over 8,650 origins and destinations daily. And we also are among the largest buyers of air freight outside of Bluedart. We fly on passenger belly, and have over 274 air connections that connect every major airport in the country every day.

Now, more importantly, outside of deep revenue growth and expansion in the network and a diversification of our services, the company has also achieved break-even at an adjusted EBITDA level. As you can see, revenue has grown from Rs. 1,650 Crores in financial '19 to Rs. 7,240 Crores as of financial '22. At the same time, our service EBITDA margin has grown from 2.5% in financial '19 to 10.4% in financial '22. By service EBITDA we refer to cash EBITDA that's generated by all of our services after accounting for the direct variable and fixed costs of operations. This excludes our corporate overheads. Our corporate overheads, as a percentage of revenue in this period, have also dropped from 13.9% of revenue in financial '19 to 9.4% of revenue as of financial '22. And we continue to see significant operating leverage in the model. The net result of this is that our adjusted EBITDA margins have improved from -11.3% in financial '19 to plus 1% as of financial '22. I would also like to highlight that this has occurred in a period where we have ourselves brought down yield per express parcel from Rs. 92 per pack in financial '19 to Rs. 72 in financial '22. And in an environment where fuel costs have inflated from Rs. 66 per liter in financial '19 to Rs. 93 in financial '22. So, the net summary is that growth and profitability no longer are conflicting objectives for Delhivery. There is a massive amount of operating leverage that sits in this model that is visible in a declining yield and increasing input cost environment.

If you look at our numbers at a quarterly level, you'll see that our adjusted EBITDA margin has improved from -3.8% in Q1 of financial '22 to positive 3.9% in Q4 of financial '22. And do bear in mind that quarter one of financial '22 was a quarter that was impacted by COVID due to lockdowns. The incremental margins that we have generated between quarter one and quarter four, which is the incremental EBITDA generated over the incremental revenue between these quarters has come in at close to about 24.6%. And a consequence of this huge operating leverage is an improvement in the adjusted EBITDA from -11.3% in financial '19 to break-even in financial '22. As the Delhivery model continues to grow, as we continue to grow our transportation and warehousing businesses, we expect these adjusted EBITDA margins to improve with scale.

The operating leverage that I was speaking about is demonstrated in this slide. Freight handling and servicing costs overall have reduced from 76.2% of revenue, which is in the table on the extreme right, to 72.4% of revenue between financial '21 and financial '22. The gross margin of the company is defined as revenue less the freight handling and servicing costs. So, the other way to look at this is that our gross margins have improved from 23.8% to 27.6%. This has been driven by improvement in nearly all of our major cost heads. Line haul expenses, which is the cost that we pay for the trucks in our mid mile, have reduced from 36.4% to 34.8% in financial '22. Once again, bear in mind an inflationary fuel environment. Contractual manpower expenses have reduced from 13% to 10.9% driven by improved productivity across the operation.Vehicle rental expenses have increased marginally from 18.6% to 19.7% as we have shifted more of our revenue towards part-truckload. And our major fixed costs, which are rent, security, expenses, and power, fuel, and water charges, have all improved by 0.5 to 0.6% as a percentage of revenue. So, as you can see there's tremendous amounts of operating leverage in the business.

A quick snapshot of the adjusted EBITDA and the bridge, our pro forma revenues and our pro forma expenses for financial '22 stand at Rs.7,241 Crores and Rs. 8,509 Crores. And therefore the pro forma loss in the business is about Rs. 1,100 Crores. However, do bear in mind that this contains two large non-cash discontinued costs. One of them is a Rs. 300 Crores non-cash cost due to a fair value adjustment of CCPS. And one is a Rs. 178 Crores cost that was a one time discontinued expense on account of certain employee payments related to management warrants. We also have non cash recurring costs of Rs. 765 Cores of which depreciation and amortization form Rs. 445 Crores, and we have Rs. 320 Crores of ESOP expenses. Adding these back to the overall PAT generates the overall adjusted EBITDA of Rs. 72 Crores, or break even, for financial '22.

The same thing is reflected in our cash PAT as well on the next slide, which is essentially simply our profit after tax adjusted for non cash expenses. This has improved from negative 1.8% for quarter one of financial '22 to 6.6% as of quarter four of financial '22. And the business has essentially generated an adjusted cash PAT of Rs. 212 Crores in fiscal '22 overall. The overall bridge for adjusted cash PAT is on this slide and has the same logic as adjusted EBITDA as well.

In terms of use of proceeds, the graph on the left shows use of proceeds by the company since inception. As you can see in the bars on the left, between financial year '12 and financial year '17, nearly 55 to 60% of the total capital utilization of the company was in operating cash burn. Essentially in building operating capacity that was then absorbed by our different businesses. From fiscal '18 onwards is where you see the operating leverage of the model really kick in. Between fiscal '18 and fiscal '20 only 21% of the total capital used by the business was used towards operating cash burn, with a significant portion towards business expansion. In fiscal '21, a total of 23% was used by the company towards operating cash burn. However, taking out the impact of April and May, which was a total lockdown in India, only 3% of the overall capital used in fiscal '21 was used towards operating cash burn with the rest used towards upgrading the network through CapEx into working capital. And as of fiscal '22, we actually have had cash profits that have been ploughed back into the business, and most of our capital usage has been towards investing in capacity through CapEx and in capability building through acquisitions.

Overall in our lifetime, if you look at the graph on the right, we have raised growth to Rs. 8,000 Crores of capital. Prior to our public issue, we had Rs. 2,500 Crores of cash in hand. Of the Rs. 5,500 Crores that the company had spent only Rs. 750 Crores had been spent on operating cash burn, Rs. 1,400 Crores had been spent on CapEx. We made acquisitions worth Rs. 1,900 Crores and the rest was invested in working capital. Post the IPO, we continue to be the best capitalized player in this space with a balance sheet of over Rs. 6,300 Crores of cash.

We continue to invest heavily in building capacity and capability. Our overall CapEx for financial '22 was at about Rs. 466 Crores. Our CapEx as a percentage of revenue has come down from 9% in financial '19 to 6.8% in financial '22, and our expectation in the medium term is that this will settle at about 5% and in the long term, at close to about three and a half to 4% of revenue.

We continue to invest heavily in building out our proprietary tech platform. Our platform is ultimately what orchestrates all of the different infrastructure and the different participants across our network. We are in the third generation of our systems today. Between financial '12 and financial '17 in our first generation, we essentially built out a large monolithic supply chain stack. Between financial '17 and financial '19, we re-architected this stack towards a services oriented architecture. And in the last four years have invested across our teams in Seattle and Hyderabad in re-architecting to build a logistics platform that will be opened up for global application developers starting this year, and will allow both Delhivery and other entities to build SaaS businesses to offer for supply chain problems across the world.

Apart from this, we continue to invest in collecting, storing, and processing vast amounts of data. We collect a vast amount of data, which includes traffic data, road data, operational data, location data, consumer identity, and product information. We collect over 250 million GPS trace points daily across over 80,000 unique devices. We've delivered over 1.4 billion orders, which allow us to uniquely identify the location of all of the Indians we've delivered to across our entire network. And we use operational data and telemetry data from our fleet and from our riders to continuously optimize utilization of our trucks, routing of our trucks and routing of our last mile.

In terms of growth initiatives going forward in the near term, the first important initiative for us this year will be to continue to integrate the Delhivery and the Spoton networks. The Delhivery and Spoton networks were merged from a client standpoint and from a team standpoint in the last two quarters of the last financial year. As of April 11th this year, we cut away the Spoton technology systems and have essentially migrated all operations to a single Delhivery network and a single Delhivery system. We expect to realize network synergies as we integrate operations between the two networks by the third quarter of this year, and launch our new service, which is the Economy PTL service, which is aimed at the larger segment within the Less Than Truckload market. We will continue to expand our network and our infrastructure. We expect to add close to about four million square feet of infrastructure this year. We also expect to expand our fleet of tractor trailers. Delhivery is the only player at this point, which uses the Volvo tractor trailers, which are highly efficient trucks and deliver efficiencies in terms of overall mid mile costs. We also expect to expand our automated sortation capacity by 35% in financial '23.

Along with this, we continue to invest in introducing new automation, which includes autonomously guided vehicles, automated storage and retrieval systems and system direction in our mid mile operations, to drive both service precision and service efficiency in our mid mile. We continue to expand the use of electric vehicles in our first mile and last mile operations, and also expect to pilot LNG and electric vehicles in our long haul, mid mile operations. From a business standpoint, we have completed our integration between Delhivery and FedEx. The two networks are now fully integrated and can code share airway bills. And we expect to aggressively grow our cross border express product this year. We will also be growing our integrated end to end supply chain services business with a focus on key industry verticals, which will include consumer products, fast moving consumer goods, electronics, auto and auto spare parts, and pharmaceuticals.

We have also launched the Delhivery D2C Academy with key ecosystem partners to provide services to fast growing direct to consumer eCommerce brands. From a technology standpoint, we expect to launch our Unified Client Portal and our merchant panel, which will allow all of our customers irrespective of business line to self-serve and access all of Delhivery services through a single portal. We will also launch our Delhivery Direct mobile application, allowing consumers to access the

Delhivery network and to ship from the comfort of their homes, and our Orion platform, which will allow people to discover the price of truckloads across the country and book truckload freight across the country. And finally, we expect to launch our platform as a service for global third party developers in the third quarter of this year, and a SaaS offering in select international markets by the end of this financial year.

From an ESG standpoint, we continue to invest in a variety of areas. We operate over 1.5 megawatts of solar power plants which are installed at our Gurugram and Kolkata mega gateways. As I've mentioned, we have active pilots with two and three wheeler electric vehicles across our operations. We are also exploring LNG and EVs in our mid-mile. We have perhaps among the highest utilization of Bharat VI compliant larger format trucks, which are the 46 foot trucks that are almost 25% more efficient than the typical trucks that are prevalent in the express industry, and we continue to expand this fleet. And we continue our efforts to go paperless by implementing EPOD with select PTL and express customers. We've continued to expand opportunities for women employees at Delhivery. We have, I'm proud to say, nearly 2000 women employees as of the end of financial '22, which is a growth of nearly 4X in the last year. We've established the Delhivery Academy that is engaged in providing training and skill development from grassroot to supervisory levels. So people can join the Delhivery Academy, be skilled by the Delhivery Academy and then find jobs in Delhivery or in other parts of the logistics industry. We have special programs that are run for drivers to minimize road accidents and have one of the best safety records in the industry.

We are voluntarily engaged in community service as well. Earlier this year, we distributed nearly 800 tons of oxygen concentrators and other relief material during the COVID second wave. We continue to be proud partners of Olympic Gold Quest and partners of Goonj which is an NGO focused on humanitarian aid. We also have our own Employee Welfare Fund, which apart from the statutory medical benefits that we provide to all of our partners and employees, goes above and beyond.

And from a board standpoint, we have a fully Independent board with an Independent Chairman of the board. 5 of the 11 members of our board are independent directors. Our plan is to appoint at least one woman director by the end of financial '23, and 8 of the 11 board members are non-executive.

So in summary, the investment case for Delhivery is quite simple. India is an extremely large logistics market. It's a $200 billion addressable market that remains anomalously large and fragmented. Every major global economy around the world has produced a large logistics company. In the US, we've seen the likes of FedEx and UPS. In Western Europe, the likes of DHL and the erstwhile TNT. In the last decade, China has produced over seven large logistics companies. India is yet to produce a large integrated domestic logistics company.

Delhivery today is the largest integrated logistics platform in the country and the fastest growing by a factor of magnitude. We provide a full range of supply chain services, which cut across transportation, warehousing and cross border logistics and technology to tens of thousands of customers. We have industry leading revenue growth and scale. From a standing start in 2011, we've reached nearly a billion dollars of revenue and diversified rapidly. More importantly, while revenue has grown and diversified operating leverage in the business has driven profitability, growth and profitability are no longer conflicting objectives for Delhivery, and going forward we expect improvements and profitability to continue.

All of this is powered by a unique unified mesh network infrastructure, which is interoperable across all of our business lines and services, which essentially means growth in any single one of our business lines drives growth as well as margin improvement across our other business lines. We continue to expand our network in an asset light way, bringing in network partners, bringing in infrastructure partners across the country, and therefore making sure that Delhivery's technology and Delhivery’s capital is best used towards expanding capability.

We have vast technology and data intelligence capabilities that differentiate us from the rest of the market. And more importantly, as the logistics space becomes more organized, as the logistics space consolidates, Delhivery is the natural consolidator of the industry as evidenced by our track record of complimentary acquisitions, and ultimately the team is led by a high quality and experienced management team and board. With that, I think we've come to the end of the presentation. So I will pause and we will be glad to take questions.

Sougata Basu:

Thanks Sahil. We'll take the first question from the line of Sachan Salgaonkar of BofA.

Sachin Salgaonkar:

Hi, thank you for the opportunity. Congrats on a great set of numbers, and Sahil and team, thanks for the detailed disclosures in the presentation. I have three questions. First question is on the revenue growth outlook drivers. Now this is in context of quite a few of the eCommerce platforms spending less and selling in marketing, discretionary spends on eCommerce platform by consumers coming down. And I did hear in your opening remarks you mentioning about disruption to some of the companies. So just wanted to understand between the pricing and volume mix, how should we look at the growth going ahead? And what kind of a growth versus compared to industry growth, should we expect for Delhivery's eComm business?

Sahil Barua:

Sure. Thanks for the question, Sachin. I think when you look at eCommerce, it's important for us to maintain a mid to long term view. I think when you look at eCommerce as a percentage of total consumption today, it continues to be a very, very small fraction. And the overall shift towards purchasing online continues to be secular and strong. I think what we are seeing, and especially what we've seen in the first two quarters of this year is that individual players, based on sort of their previous strategies may face turbulence going forward, because consumer acquisition costs have obviously gone up and some of them are in relatively crowded verticals. But the secular trend towards buying online, our numbers show, has not shifted as much. Even post-pandemic, while people have talked about the fact that propensity to purchase online has reduced somewhat, the sectors that are affected more are sectors like grocery and food, and much less so the big box eCommerce.

Outside of this, I think there are new categories which are coming into eCommerce as well. So for example, the consumer durables market and the furniture market are two markets which have grown quite significantly in the last two years. And I think our view is that we'll continue to see new categories also shift online. From a volume mix standpoint, therefore, I think our estimation is that eCommerce volumes will continue to grow at about 30% going forward. At the bare minimum, Delhivery will grow at market rates and maintain market share. Though, as you can see in the last year, we've successfully utilized both growth in the network as well as pricing power to grow our market share quite significantly. In general, our approach is to pass on efficiency gains to our customers, and the logic is very simple.

One, the more money we save our customers, the more they have to invest in their businesses. But B, as Delhivery brings down the cost of logistics, several categories which were previously unviable in eCommerce suddenly start becoming viable. And so it is important that we continue to pass some of our efficiency gains back to customers. Now, the extent to which we will continue to pass these efficiency gains back to customers is a pricing decision that we take at an individual client and sometimes at an individual category or individual lane level, so it's a little hard to predict. But suffice to say, our margins in that sector will continue to remain robust.

Sachin Salgaonkar:

Thank you, very clear Sahil. Second question is if you could elaborate a bit more on the impact of high fuel cost on your businesses, as well as the wage inflation impact.

Sahil Barua:

Sure. Let me begin with fuel inflation. So fuel, first of all, affects two of our businesses more than the others. One is obviously the express parcel delivery business and the second is the part truckload business. In the express parcel business, fuel is a relatively small portion of our overall costs. Fuel typically will form only about 12-13% of cost in the express parcel business. And so as a consequence, inflation in fuel prices doesn't have a very significant impact on cost overall. And more importantly, our productivity gains are significantly larger than the inflation in fuel. And so depending again on the customer and depending on volume, we have the ability to absorb some of this. And this, of course, gives us a differential advantage in terms of our ability to gain share. In the part truckload business, fuel forms close to about a third of total costs. In this business, nearly all of our revenue, I think 94%, 95% of our revenue is protected through pass through clauses with a maximum delay of 15 days.

And it's a standard practice across the industry to pass this through to clients, and so in some senses, us passing on a fuel hike to customers is in no way different from what other companies are doing across the industry as well. That said, I refer to the fact that a significant portion of our movements are now on our 46 foot tractor trailers, which are the Volvo trucks. These trucks by definition, they're between 15 and 30% more efficient than the traditional 32 foot or smaller trucks that most players have been using so far in the industry.

So we get significantly more mileage per liter of fuel than traditional players. And as a consequence of this, we are more efficient to begin with. So there's also that to factor in. In terms of wage inflation, I think we factor in a regular wage inflation of between 10 and 15% across different teams. And our view is that in the short to midterm, wage inflation will continue. Because ultimately the fact of the matter is that India has a limited pool of skilled labor, and our aim obviously is A, to factor in the wage inflation and B, also to increase supply of skill labor within our operations through the Delhivery Academy.

Sachin Salgaonkar:

Thank you, Sahil. And last question, and I know it's very early days for you guys, but any thoughts on how big the opportunity which ONDC could bring for Delhivery?

Sahil Barua:

I think you're right, it is very early at this point in time. And while in its conception, ONDC seems like a great idea, I think there are operational challenges that will need to be solved once it starts scaling up. We will integrate with ONDC, obviously. The APIs are open and we will provide access to our capacity. Our view is that the one big shift that it will drive and the one big shift that we are seeing across eCommerce which is where it'll drive most of the change, is that merchants and eCommerce companies will start working more directly with logistics companies, even the smaller ones. So far, you've had to have a mid-size or a large size eCommerce company to really work effectively directly with some of the networks. I think with ONDC and with these open protocols and obviously through the launch of our own Unified Customer Portal, through the launch of our own APIs, we should be able to see more direct volumes coming into our network. But like you said, it's still very early to say.

Sachin Salgaonkar:

Thank you, and all the best.

Sahil Barua:

Thank you.

Sougata Basu:

Thanks. Next question is from Mukesh Saraf of Spark Capital.

Mukesh Saraf:

Thank you for the opportunity. My first question is on the express parcel segment,I wanted to understand as your mix shifts away from these large horizontal marketplaces, as you see more from D2C players, how do you see your overall yields per parcel and probably maybe margins per parcel move?

Sahil Barua:

Sure. So Delhivery across our express parcel network is not particularly dependent on any single customer. So no single customer forms more than 14% of our revenue. And even there, that will be split across multiple services. So in some sense, we're not particularly dependent on the marketplaces or on any single customer. Obviously pricing for smaller customers and larger customers is not exactly the same, and therefore margins that we make across smaller and larger customers are not exactly the same. However, what we have attempted to do is to make sure that there is reasonable pricing parity across all of our different classes of customers. So it's not like we make losses on larger customers, and ultimately those larger customers are being subsidized by outsized margins on very small customers, which is traditionally how the logistics world has managed yields.

Our attempt is to maintain relatively consistent yields across different classes of customers. And the reason we're able to do that is that our stated aim is to be the lowest cost service provider. We intend to build, and we are building the most efficient parcel delivery company, not just in India, but in the world. And so when you are the lowest cost service provider, we have the ability to provide the lowest cost to all of our customers without having to subsidize one group versus another. So we make significant margins across all of our different customer classes. There are minor differences in terms of volumes, but one group is not subsidized by another.

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Sougata Basu:

The next question is from the line of Alok Deshpande of Edelweiss. Alok, please go ahead.

Alok Deshpande:

Yeah. Hi. Hi, Sahil. Hi, Sandeep. Congratulations on a great year. Couple of questions from my side. First, on the growth drivers that you mentioned for FY23, the two things. One was on the LTL or the PTL part where you want to go. I just wanted to understand the strategy there. I think it's also one of a very fragmented market segment. So, just wanted to understand how do you see yourself making inroads there in terms of gaining market share? And also a little bit on the C2C aspect. How do you see that market? And what's going to be the strategy there.

Sahil Barua:

Sure. Let me start off with the PTL space. The PTL space is an $8 to $10 billion space today. And, actually, there's a significant movement, especially post GST, away from FTL, towards PTL. And within PTL, there is a shift towards both organized players, as well as away from sort of traditional slow PTL towards Express PTL. Because people are beginning to discover that paying slightly more for a faster service in PTL, ultimately brings down inventory across the supply chain.

Our strategy across PTL, Alok, is really no different from our strategy in the Express business, because when you think about part truck load, and this is also why we run an integrated network, part truck load is nothing but Express parcel, but with larger package sizes. And so our strategy will continue to be the same. Delivery's flywheel is very simple. We build high quality, large scale infrastructure. We engineer it to be highly productive and therefore lowest cost and highest reliability. As we do that, we're able to pass benefits onto our customers. And therefore we're able to provide not just the most economical service, but also the largest reach and the most reliability and speed to them. And ultimately we're rewarded in more volume, which then sort of continues to spin the flywheel. That's exactly what we'll continue to do in the part truckload space as well.

In the Express part truckload space organically, we will continue to expand capacity of our freight handling terminals. So we have established three large trucking terminals last year in Gurgaon, in Bhiwandi and in Bangalore. The Gurgaon one is fully automated. The Bhiwandi and Bangalore ones are semi-automated. We will expand integrated freight terminals across the rest of the country as well, in new hubs. And outside of that, we will continue to expand the size of our mid-mile fleet.

Now what allows us to deliver a higher quality of service at a lower cost, and therefore either pass efficiency gains or eventually make higher profits, is the technology systems and the data systems at the back, which allow us to orchestrate the network. So our systems and the mesh network allow us to connect different hubs across the country differently every day and in real time. So where traditional part truckload networks, for example, if they were going from Delhi to Bombay, would always go from Delhi to Bombay, the Delhivery network may send 10 trucks, for example, of which four go directly from Delhi to Bombay, three go from Delhi to Ahmedabad to Bombay, one goes from Delhi to Jaipur to Bombay, two go from Delhi to Surat to Bombay, and so on which allows us to maximize utilization while meeting service times. So that's sort of going to be our strategy overall. It's the same as our Express business - expand infrastructure, expand capacity, move to larger truck sizes, let our systems orchestrate and drive efficiency.

Outside of this, we also intend to enter the economy PTL space, which is the slow PTL space, or think of it as the relatively time insensitive PTL space. And the reason we have a unique advantage when we enter the economy PTL space is, again, that since our network choices are purely system determined, when we need to provide a service to a time insensitive customer, we can, at various points in our network, hold loads and use them to drive up utilization of our vehicles. So for example, if a load is manifested in Gurgaon, and it doesn't need to move to Bombay until tomorrow, we can hold that load in our facility in Gurgaon, and use that load to increase utilization of one of our vehicles, which is departing with Express loads. So our aim will be to launch economy PTL as a new business line on top of our existing network and use it to drive up profitability while providing the same service. Chances are, we'll also be able to provide a faster service to economy PTL players as well.

So that's our strategy on PTL. This is obviously organic. We've made an acquisition when we bought Spoton last year. Spoton was the fifth largest player in this space and outside of delivery, the fastest growing. We will continue to look for some interesting acquisition opportunities, which will either be complimentary networks, either from a geographic standpoint or with service specific verticals that delivery has a low sort of footprint in.

In terms of consumer to consumer, this is just a simple service, which will allow anybody to really download the Delhivery mobile app, register as a user, and then ask for a shipping service. Traditionally what Indians did by going to, let's say, your nearest DTDC outlet or your nearest First Flight outlet. We realize that we have the capability to pick up from your doorstep, and so consumers will have the ability to do that.I think we launched this service about a year back, but without the mobile application on a web storefront, and it was designed more as an experiment. What we were surprised by was the speed at which it grew. Today, the overall delivery consumer to consumer business is probably close to about 40 or 50,000 orders a day. So we're doing, maybe, close to about 20 million orders a year. And I think this is one of those services where before we started it, we thought there wasn't a very large market for it, but it turns out that this is one of those services for which there is latent demand. So it's a simple mobile application. It's a simple extension of our Express services. I don't exactly have a forecast in terms of how large it can get, but it's a high value service.

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Alok Deshpande:

Sure. Understood. And just one very, very, very quick question on the Express parcel business. On one of the slides, you mentioned that in the past couple of years there haven't been much investments in the network infrastructure there. So, is it fair to say that there is sufficient room in the infrastructure in the network to sweat out that network even more for the next, maybe a year, couple of years before a sort of next round of expansion happens there? Or any comments there?

Sahil Barua:

Yes, there would be. If you look at the expansion, or if you look at the CapEx that we spent in financial 21 and part of financial 22, this was largely towards building out our three mega facilities in Gurgaon, in Bhiwandi, and in Bangalore. The expected life for these facilities is between three to five years. Now, obviously they're designed for five years and frankly, as a Delhivery team and our shareholders would be perfectly happy if we ran out of capacity in three years, because that would mean volumes were that large. And that's sort of historically been how some of our facilities have gotten consumed.

Our expectation is that overall capital intensity, which was at 6.2% of revenue, will come down in the medium term to about four and a half to 5%. And then to 3% in a relatively stable state, which will be both for new CapEx as well as for maintenance of the existing network. So overall capital intensity will continue to reduce. As where we are today, we certainly have close to 1.6x to 1.8x stretch available within the network capacity for us to grow.

Alok Deshpande:

Sure. Understood. Excellent. . Thanks for these responses and all the very best.

Sahil Barua:

Thank you.

Sougata Basu:

Thanks, Alok.

Sougata Basu:

Sahil, Mukesh has typed his question on the chat box. Are you able to see? It's about the Spoton integration. Do you want to take that first?

Sahil Barua:

Yeah. So I'll read out the question. We've heard about some challenges in the Spoton integration. Could you give us some details about that? Have we lost any market share in that process?

So, as I mentioned, we began the Spoton integration two and a half quarters ago. The first two quarters were spent on integrating on the customer side and integrating customer service processes and then integrating the two teams, and making sure we had a consistent training base across the entire company. As of April 11th, we cut away the Spoton systems and began to migrate to a single network. At that point, we decided also to cut away certain client volumes where the integration with Spoton, for example, was a highly specific integration, or it was a freight type that delivery was not equipped to handle. As of today, the networks are operating back at a service level, which is actually above the service level that the two networks had standalone prior to the integration on April 11th. We expect full volume recovery to happen in the networks within the first half of the next quarter, so by July or by early August. We expect to be at our full potential margins by the third quarter of this year, and expect to start discovering synergies by the fourth quarter of this year.

In terms of the feedback we've had from clients, both the ones where we proactively decided not to take volumes during the later part of April and first part of May, as well as clients whom we continue to service, we see no reason at this point to believe that this will lead to a loss in market share. I think the reality is that integrations take time, and in our case, we've taken about nine months to get the integration going and to get it done. This was the quarter in which we were hoping to finish and we're on track.

Sougata Basu:

Thanks, Sahil. And the next question is from the line of Venugopal from Sanford Bernstein. Venu, go ahead, please.

Venugopal Garre:

Hi. So, thanks a lot. So, my first question, Sahil, is on the margins front. Based on the data that you have shared FY22, you had close to about 1% adjusted EBITDA margins. Now this is almost at a billion dollar revenue scale. And what I do understand is that going forward, given that you would, of course, want to drive up your margins, what do you think is a major driver for incremental increase in margins from here beyond that scale? Because you seem to have pretty decent scale in eCom logistics as well at this juncture. So are there any other cost side drivers that you are primarily going to be working on to improve margins materially from here?

Sahil Barua:

Sure. So, Venugopal, you know, thanks for the question. Let me start. Apart from the 1% adjusted EBITDA, the important thing to recognize is that the incremental margins in this business are very high. In the first quarter of financial 22, we did Rs. 1,508 Crores of revenue, with a minus 3.8% adjusted EBITDA margin. In the fourth quarter, we did Rs. 2072 Crores of revenue, with an adjusted EBITDA margin of 3.9%. So an overall swing of 7.7% in the adjusted EBITDA between first quarter and fourth quarter. The incremental adjusted EBITDA that the business generated was Rs. 139 Crores on an incremental revenue base of Rs. 564 Crores. And so the incremental adjusted EBITDA margin actually stands at about 24.6% and continues to improve. So to your question, I don't think we have to do anything that is dramatically different from what we did in financial 22 for margins to continue to improve. And that's what I meant when I said that growth and profitability are not conflicting objectives for Delhivery.

As in all network businesses and in all businesses where you have to establish capacity before it gets utilized, our incremental margins are high enough that as volumes continue to come into the network, our margins will organically keep improving. That said, we do have certain cost levers in hand. To use an example from the Express parcel business, we expect significant savings to come in our mid-mile operations. This will come from two areas. One is as we continue to automate more of our gateways, as we continue to launch these combined parcel and freight terminals, the overall productivity per square foot of these terminals, as well as the overall productivity of all of our workers in these facilities, is expected to improve. And as that happens, there's direct operating leverage.

The second is through utilization of the vehicles that we currently operate, in two ways. One is our systems are now automatically guiding better routes. And so we've seen a reduction in per parcel unit or per rate unit cost of mid-mile operations or cost of line haul. We will also, as we see a greater shift from the 32 foot single axle and multi axle trucks that we use towards the 46 foot tractor trailers, see A, an organic improvement in per unit cost, simply because the larger trucks are more efficient, but B because tractor trailer operations are asynchronous because the tractor and the trailer can be separated. This allows us, fundamentally, to improve dock throughputs across all of our hubs as well, and therefore further improve the productivities that we were anyway seeing through automation.

So without getting into, sort of, the more obvious ways in which productivity will improve, which is through larger volumes and therefore larger last mile route density, or for example, larger usage of the delivery centers in terms of package per square foot, I think the biggest change will come from improvements in our mid-mile.

Venugopal Garre:

I got it. Thanks a lot, Sahil, for this very detailed explanation. I had another question largely centered around use of cash and how that moves with growth. So firstly, I mean, historically in the past, you used to have fairly heavy working capital usage, but we've seen that improve over the years. I wanted to understand at this stage, how does mix of this business, for example, a bit more of LTL versus Express... versus the eCom side, alter your working capital consumption? Are we at a stage where to deliver a certain amount of growth, working capital consumption incrementally would be substantially lower? Any quantification around that would be great.

And also wanted to understand, purely from a perspective of inorganic growth, quite a few times in the presentation, you have mentioned that you would be a consolidator. I missed out on one fact there, is that when you look at the consolidation part, and I guess you are focusing more on the PTL side of things. Or could you also evaluate these opportunities in the eCommerce side of things, even though there are very few players out there.

Sahil Barua:

Yeah, that's a great question. Let me start with the consolidation piece, because that's a faster answer. I think we would look to acquire any networks that we feel are complementary to the Delhivery network. This could be complementary, as I'd mentioned, in terms of the geographies they service. For example, when we acquired Spoton, one of the things we discovered and which made us excited about the acquisition was that a lot of the material flow in the Spoton network was in reverse direction to the Delhivery network itself. And so it was a highly complementary acquisition that took up utilizations across our entire network apart from adding direct scale to our part truck load business.

We will also look for acquisitions, hich service specific verticals. It need not just be part truck load players. But as an example, there are small supply chain companies which service specific verticals. So there will be, for example, players who service the auto component space, or who service the FMCG space with a full supply chain stack, which is warehousing, primary distribution, secondary, and so on. And those also are potentially interesting network acquisitions for delivery.

In terms of other acquisitions, obviously, we'll also look at technology acquisitions. We made a few small bolt-on acquisitions, like we acquired a company called Primaeller, which expands our direct to consumer value proposition. Or Roadpiper, which allowed us to effectively communicate with fleet owners across the country much better. So we'll also look for some interesting technology acquisitions in India and abroad.

In terms of capital allocation, our overall working capital cycle, our net working capital cycle has improved quite significantly from financial '20. Though financial '20, to be honest, was a bit of a blip because working capital was elongated by the COVID period. Across our businesses, whether it's

Express, part truckload, full truckload, or cross border, our credit terms or collection policies are more or less in line with industry standards.

And so, our overall working capital cycle is then therefore just dependent on what the mix of our businesses is. So as the part truckload business, for example, has grown, the net working capital cycle has tended more towards where the part truckload businesses working capital cycles are, other than Express, which is fundamentally different. We continue to explore different ways of really bringing down the working capital cycles. So for example, in the Express space, we allow customers to prepay us and to avail of discounts from us, for prepaying for our services. And we also have introduced billing cycles, which are much shorter than traditional 30 day billing cycles, as well. So we will continue to explore these different ways of sort of bringing in working capital efficiency across our business lines.

Venugopal Garre:

Thanks a lot, Sahil.

Sougata Basu:

Thanks. The next question is from the line of Aditya Mongia of Kotak Securities. Aditya, go ahead, please.

Aditya Mongia:

Hello. Hi, Sahil. Thanks for the opportunity. I had only one question, which I'll go ahead with. You've talked about how Delhivery is passing on the efficiency gain to customers, and also democratizing the market across customer sizes. The benefit, as you said, would be in expanding the pace of market growth. I wanted to ask you, how far away are we from that inflection point, wherein the end markets and Express parcel and PTL start to grow faster and such count?

Sahil Barua:

Sure, Aditya. That's actually a really good question. And thanks for the question. Let me answer this through an anecdote, actually. There's an interesting anecdote where one of our marketplace customers, as we were working with them to reduce overall cost of logistics, as we were able to design a solution for them, an entire category, which is Tupperware, for example, suddenly became viable for them to market and ship across the entire country. And it actually.really created an entirely new and viable origin in the city of Rajkot, which then became a large origin for these Tupperware products that were then sent out across the country. With traditional shipping rates being what they are, as you can imagine, Tupperware is a volumetric product. It occupies a lot of space, but it doesn't have any value density. It's not a very expensive product. So you really need to be able to provide an extremely efficient delivery service for that category to be viable. And as we were able to build out a profitable way for us to service ex-Rajkot to the rest of the country, that entire category suddenly became viable, and suddenly brought business both to our customer and ultimately to the sellers who are based out of Rajkot.

So that's an example of how passing on efficiency gains expands the overall market. And this doesn't just affect things like Tupperware. For example, this affects delivery of consumer durables. This affects delivery of furniture, for example, where logistics costs are traditionally a very significant portion of the average order value of the product. And then by extension, obviously the same logic holds for the freight industry as well.

In the freight industry, the bigger change and the bigger inflection point that you will see is when our combined network has the ability to provide a near express service at the same cost to customers who are historically used to a time-indefinite service. Because of the fact that we can mix and merge across our hubs, and this is entirely system-driven and not driven by rule of thumb, these customers will experience an improvement in service time without an increase in cost. And so that's when we'll start seeing inflection point.

If you look at traditional logistics companies, even if they happen to offer an express and a non-express product, typically the express and non-express products are run on entirely different infrastructure and on different rails. Whereas at Delhivery, they're out of the same network. And so I think as we scale this business, you'll start seeing that inflection point in PTL as well.

Aditya Mongia:

Sure. Just a related question that should we be assuming that PTL will see far more benefits of this kind of process happening? Maybe some of that will start happening over the next one to three years?

Sahil Barua:

I can't put an exact timeline to it, but let me put it this way - I'd be very excited if we can do it in one year. I'm not sure that we'll be able to do it in a year, but I think as we'll gain scale in the PTL space... We've already reached this year, it's 24% of our revenues. I think no single PTL player in India has gotten past maybe about $350 Mn in revenue. I think once we get to half a billion dollars in revenue and sort of become significantly larger from a network standpoint, these benefits should start accruing. So hopefully, within the timeframe that you're speaking about, but it's hard to put an exact timeframe.

Aditya Mongia:

Thanks, and all the very best for this and other things that you would accomplish over time. Those are my questions. Thank you.

Sougata Basu:

Thanks, Aditya. Next can we have Abhishek Ghosh from DSP Mutual Fund? Abhishek, go ahead please.

Abhishek Ghosh:

Yeah, hi. Am I audible? Hello?

Sahil Barua:

Yes.

Abhishek Ghosh:

Yeah. Sahil, thanks for the opportunity. Just a couple of questions. You know you mentioned that those higher size trucks are typically more cost efficient and that can incrementally bring down your cost. So how should we assume in terms of being asset-heavy and asset-light? At least for owning of the trucks incrementally will be more asset-heavy because of the cost element coming into it, and you also have a large amount of cash on books. How should we look at it? Some thoughts that will be helpful.

Sahil Barua:

Sure. So Abhishek, right at the outset, Delhivery's strategy is not to be asset-heavy, and we do not intend to continue to expand our fleet. And I'll explain to you why. In a big way, at least, I'll explain to you why. India has, depending on what reports you read, four, four and a half million trucks that are plying on the highways. The problem in India is not that India's 4,000 trucks short. So Delhivery going out and buying 2,000 trucks or a thousand trucks or 3,000 trucks is not going to fundamentally alter the market. The problem in India is that these trucks don't drive enough. You know, the average Indian truck drives somewhere between six and 8,000 kilometers a month, which is really not enough for the operator of the truck to make an economic profit. You know, whereas global comparables will be trucks driving 15, 16,000 kilometers a month.

What Delhivery is particularly good at is that when a fleet owner exposes their capacity to us, we are able to orchestrate our demand and demand from our customers into their trucks far more efficiently so that they are able to drive 15, 16, 18,000 kilometers a month, which is how we've expanded our fleet. So if you look at it, one of the statistics that I'd mentioned was that we operate over 9,000 trucks on a daily basis. Our own fleet is only about 450 trucks out of that. All of the rest of them are partner vehicles. And so we will continue to expand through partners. Now, why we bought the original set of tractor trailers was that we were part of the design process of these trailers with Volvo. At that point in time, they hadn't considered the fact that those tractor trailers might be useful to a parcel delivery company.

But at that point, we obviously knew that we were going to do parcel and freight together, which would give us high utilization, and so we helped design the truck as well. And we bought the first set of trucks to bring them into India, to prove their viability and the economic returns that could be made to potential fleet owners. As Delhivery, we already had hundreds of fleet owners who partner with us who were interested in buying this truck. It's not that there aren't people who aren't willing to be asset owners. So the way we work is that we prove the viability of the truck. We then demonstrate to our partners that it's in their interest to purchase this truck. We essentially are underwriting the demand, which gives them the confidence to go out and build the fleet. And what we've also done is to negotiate at an enterprise level with the suppliers of trucks, to make sure that our partners, our fleet partners are able to purchase these trucks at the same terms that Delhivery would be able to do so.

So as we go forward, you should not expect an increase in our asset intensity. Our intention is not to purchase more trucks or to build up a fleet of thousands of trucks across the country. It will be to demonstrate the viability of these tractor trailers and then to orchestrate the network. Our capital is best used towards building capability, which is difficult to replicate, which is for example, the trucking terminals, the automation that goes into the trucking terminals, the technology systems, and then obviously to acquire complementary assets that can add scale to our network.

Abhishek Ghosh:

Thanks, and that's helpful. Just the other thing is in terms of just coming back to this earlier question of the cash utilization. Now, if I just correlate it with broadly, to look at the logistics industry, particularly the road part of it, is fairly fragmented, right? Like Spoton, which was the second largest player also will bring this revenues in excess of just about, just about $150 to 200 Mn. So in that light, since you are already...you start off with almost about Rs. 6-7,000 Crores of cash, there'll be also cash generation. So how should we look at it in that terms? Will it be lot, many smaller acquisitions, or will diversify just some thoughts that will be helpful, right?

Sahil Barua:

Sure. You are right, Abhishek, and you do point out something interesting, which is ultimately why the Delhivery story is interesting right? There aren't too many assets out there to go and acquire which are of significant size, and that is fundamentally the opportunity in the Indian logistics market. So the way we look at it is obviously we will continue to grow organically as operating leverage kicks in, our requirement for cash to fund our operations will disappear. We will look at a sort of...think of it as a string of pearls acquisition strategy, which is really to look at a variety of small networks that we can quickly integrate. And the advantage is the larger the Delhivery network becomes, the easier it is for us to integrate these bolt on acquisitions. Had we been half our size, I don't think we would've had the wherewithal to go and acquire Spoton and go and integrate the two networks.

And by the way,, that's exactly why consolidation in the Indian spaces not happen because for consolidation to happen, you need to have a large organic consolidator. Small companies cannot organically get together with each other, consolidate into a larger network. It's much harder. It's much easier when there's a large buyer, which is what Delhivery has become. So yes, we will look at a string of pearls strategy. We will look for small assets to go out and acquire. And our own requirements for capital to fund operations, will essentially, with increasing operating leverage we'll disappear.

Abhishek Ghosh:

Okay. Just one last thing in terms of, when you look out for such acquisitions, obviously you mentioned about Spoton that they had a reverse flow of traffic and other things of cargo, so that in terms of one is on the operational part of it, but are there any financial parameters that even worth considering when you look for these acquisitions, or given the scale of operations, you have to kind of ignore that? I'm just trying to understand from the capital allocation now that you're listed

Sahil Barua:

Yeah. To be very clear, there are two things that we want to. One is, if you look at our historical track record of acquisition, there is a certain economic case that underlies the acquisitions that we make, because there's no point to us going out and unnecessarily acquiring businesses, which are extremely expensive, and then essentially generating no economic value from them. So typically we will end up paying somewhere between 13 and 15 to 16 times of EBITDA when acquiring a company, there's a solid business case that sits at the back of that. And then we are also looking for the synergy values that both networks can release when we put them together. So yes, there is a...there's a clear economic case, and if we feel like a clear economic case cannot be built or an asset is too expensive for us to buy, then we are happy to walk away and build organically as well.

The one advantage we have as the largest and fastest growing player in this space is that there is no logistics use case that we cannot organically build ourselves. And so in some senses that limits sort of our desire to purchase assets at any price. The second thing is related to what you were asking, an earlier question, I'm sorry. I realized I didn't answer that, is we are in a $200 billion market and Delhivery's a billion dollar company. There is absolutely no requirement for us to get distracted by other spaces, or to make sort of unrelated diversification or unrelated moves at this point in time. Our express business, which is 58% of our business, and which is our slowest business in terms of growth, is growing 45% a year. So we have absolutely no requirement to go out and sort of randomly start acquiring businesses in unrelated area. So we will continue to remain focused on acquiring networks that have scale and that are complementary to existing businesses, and then continue to scale our existing businesses in this market.

Abhishek Ghosh:

Oh, okay. , thank you so much.

Sahil Barua:

Thank you.

Sougata Basu:

Thanks Abhishek. And the next question is on the line of Sachin Dixit of JM. Sachin, please go ahead.

Sachin Dixit:

Hi Sahil, congratulations on great results and great listing. I had a couple of questions, the first one being regarding our eCommerce customers. So I'm assuming most of these customers are working with you, as well as a bunch of your competitors as well. So what is the criteria? All the evaluation methods that goes through them, they are deciding wallet share, is it just a network, or there is more going in?

Sahil Barua:

See, fortunately, Sachin, logistics is purchased in a fairly simple way, right? If you have the lowest cost network, if you reach everywhere and if you are the fastest and most reliable, you will get a disproportionate share of your customer's business. And why would, this is one of the few industries where it is possible to be largest cheapest, fastest, and highest quality. In most industries you can only pick two or three out of these four, whereas logistics in that sense sort of is a utility kind of business. And that's what you are seeing in terms of our growth in market share and our relatively sort of dominant position in the third party space. Now, that said, customers do like to have a certain amount of redundancy when they're buying logistics. They don't want to give a hundred percent of their share of wallet to a single logistics partner.

And so if they have two or three logistics partners, that's fine, but it doesn't mean their share of wallet is split equally. So if you have two or three logistics partners, very often, we see that we will have a dominant share of wallet, which will be anywhere from 50, 60%, 70% in some cases as high as a hundred percent. And the second and third partners will have relatively much lower market share of wallet as compared to us. Fundamentally though, one thing worth realizing is that while customers certainly are price sensitive, they are not quality insensitive. There is no value proposition which says "I will be the cheapest, but I will not deliver your products reliably." That's not actually a value proposition in logistics. So you have to establish a baseline reach. You have to establish more than a baseline level of quality. And then if you have the ability to pass on cost benefits the way we have to customers, you can easily expect to have a disproportionate share of their wallet.

Sachin Dixit:

I understood. Thanks. My second question is with regards to the online grocery stuff, which is creating a lot of buzz, and I think all of these players are using some sort of dark centers, as well as warehouses which are being done by outsourced players, including some of your competitors. Are you also looking at that business? And if yes, how are you thinking about it?

Sahil Barua:

So very simply it's a very short answer. No, we are not looking at that space. The dark store problem and delivery from the dark store to consumers is a business that we feel is one that we do not have a specific capability at doing, and our interest really is in doing things that we are very good at, rather than doing many things that we are not very good at. Also, when you think about the last mile in logistics, it's a little bit of a fallacy when people talk about the fact that the last mile is the one that is the hardest. The fact of the matter is that the last mile is the one that is the least differentiated.

You know, ultimately if a product has to be moved from a point which is one or two kilometers away from your house to your house, that's not a very difficult logistics problem, and there are a relatively small number of ways in which that process can be orchestrated. What is really complex is moving large quantities of products across a land mass the size of India and bringing it to the last mile as reliably, as fast and as cheaply as possible. And so our focus really has been on how do we optimize the mid mile? How do we build the complex consolidation and de-consolidation algorithms that are the base of a logistics network, and e-grocery and dark stores, and last mile doesn't fit that mandate for us, and so we've stayed away.

Sachin Dixit:

Understood, appreciate that answer. All the best.

Sougata Basu:

Thanks, Sachin. Sahil, there is a question from Shashank Savla of Somerset Capital on the chat, which let me read it out to you, "How much share of your volumes are driven by Amazon andFlipkart, how much cost advantage would Delhivery have versus the internal logistics of these large players?"

Sahil Barua:

Sure. Thanks . So, very simply as I'd mentioned earlier, Delhivery has no dependence. We have a fairly diversified set of customers, both across all of our businesses, but individually across each of our business lines as well. So we don't have any particularly large dependence on any single customer. So no customer forms more than 14% of our revenues, and even that is split across multiple business lines.

The way we look at it is that our job is just simply to be the lowest cost, highest reliability, highest reach player in this market, and then we will achieve our fair share of the market. To use an example, even if you were to project forward, and if Amazon and Flipkart were to form, whatever, let's say 60% of eCommerce shipping going forward, and they were to outsource somewhere between 8% and 10% of their logistics, that would give us 5% share of the market, but on the remaining 40%, given our reliability, given our cost advantages, given our speed, we would have anywhere from at the lower end 40% to the upper end, maybe 60, 70% share of wallet, which would mean 16 to 20% of the market, which would still make us the single largest express player in the space.

And so we're not really dependent on any of the captives. In terms of the captives themselves and the cost advantage, while we do have a sense of what their internal cost of logistics is, and it's not publicly shared so I won't speculate on it publicly. I think structurally the problem is sort of not very dissimilar from telecom towers many, many years ago, which is, what really is the cost of telecom towers or what really is the cost of in-house logistics? I think the cost of in-house logistics will only be discovered when a transfer pricing agreement is necessarily forced between the retail and logistics arms of operators of self logistics, which today is not the case. All I can say is that there is fundamentally a difference between running a business as a profit center, which is what, not just Delhivery, but BlueDart does as well and Ecom Express and other players in this space, and running it as a cost center.

And it's very rare to find cost centers that are more efficient than profit centers. And so, I think it's safe to assume that companies which are running express delivery as profit centers are significantly more efficient than running express logistics as a cost center. Ultimately, the justification for self logistics is that we have more data, we have more control, we have more customer experience, but the fact of the matter is that the last mile, as I mentioned, is an undifferentiated service. And the second thing is when you're building an in-house logistics arm, it's impossible to decide what capacity to build. To give you an example, let's say an in-house logistics arm says that we will be efficient because we can predict how many orders will go into the city of Gurgaon. Now, that's not enough data because you don't capacitate at the level of the city of Gurgaon.

You need to know, as an example, how many packages you are going to get on the street which goes through the Fortis hospital in sector 44, because that's how you decide how many people to have in your delivery center. And, as is the law of numbers, volatility in these numbers or the standard deviation of your projections increases with greater resolution, and so at that point in time, it's impossible to decide. If you have too many people, your costs are too high, and if you have too few people, you need a third party partner, which is also why, despite having self logistics arms, companies around the world, not just in India, have had to continue to work with third party logistics partners, and in our view, that is not going to change.

Sougata Basu:

Thanks Sahil. I don't see any more raised hands and a lot of the questions on the chat have I think been covered already by Sahil . So, given we have already run for an hour, 20 minutes, in the interest of time, maybe we should close this call. Thank you again Sahil and the Delhivery team, and all the investors and analysts for joining and making this an engaging session. Thank you everybody.

Sahil Barua:

Thank you all for joining. Thank you very much. Thank you Citi team for organizing this.

Sougata Basu:

Thank you Sahil.