DELHIVERY

Date: August 07, 2025

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 June 30, 2025

Dear Sir,

This is in continuation to our earlier letter dated August 01, 2025, regarding audio recording of the Earnings Conference Call held on August 01, 2025, at 06:00 P.M. (IST) on the performance of the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter ended June 30, 2025.

Please find attached herewith the transcript of the above Earnings Conference Call.

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

You are requested to take the same on your record.

Thank you.

Yours sincerely,
For Delhivery Limited

MADHULIKA VIPIN RAWAT
Digitally signed by MADHULIKA VIPIN RAWAT
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Madhulika Rawat
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Delhivery Limited Q1 FY26 Earnings Conference Call

Aug 1, 2025

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

MR. AMIT AGARWAL, CHIEF FINANCIAL OFFICER

MR. AJITH PAI, CHIEF OPERATING OFFICER

MS. VANI VENKATESH, CHIEF BUSINESS OFFICER

MR. VARUN BAKSHI, HEAD - PART TRUCKLOAD

MR. VIVEK PABARI, HEAD - INVESTOR RELATIONS

Moderator: MR. APAR SARASWAT, SR. DIRECTOR - INVESTOR RELATIONS

Moderator:

Good evening everyone, welcome to the Q1 earnings call of Delhivery Limited. I am Apar from the Investor Relations team of Delhivery. Before we start, we would like to point out that some of the statements made on today's call will be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

To discuss the Q1FY26 results, I am pleased to welcome Mr. Sahil Barua, MD and Chief Executive Officer; Mr. Amit Agarwal, Chief Financial Officer; Mr. Ajit Pai, Chief Operating Officer; Ms. Vani Venkatesh, Chief Business Officer; Mr. Varun Bakshi, SVP and Head of Part TruckLoad and Mr. Vivek Pabari, SVP and Head of Investor Relations at Delhivery. 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.

Now I invite Mr. Sahil Barua to take us through the key highlights of the quarter, post which we will open up for the Q&A. Thank you and over to you, Sahil.

Sahil Barua:

Thank you all of you for joining our earnings call this evening on Friday. As always, we will begin with a short presentation for about 15 minutes and then I will be happy to take questions. Before we begin, I would like to place on record on behalf of the entire team of Delhivery our deepest gratitude to one of our directors, Mr. Srivatsan Rajan, who has served as a director on the Board of Delhivery for the last 10 years and will be stepping down in September. I would also like to extend a very warm welcome to two new directors on the Delhivery Board. Professor Padmini Srinivasan from the Indian Institute of Management Bangalore and Mr. Yashish Dahiya, MD and Group CEO of Policy Bazaar, will be joining the Delhivery Board from today. So welcome on behalf of the Delhivery team to them. Great.

Moving on to summary of results for Q1. We have had an excellent start to FY26 with strong revenue growth in our core transportation businesses and significantly improved profitability. I will walk through the numbers.

As of Q1, we delivered Rs. 2,294 crores of revenue from services which is about 6% higher year on year and about 5% higher quarter on quarter. Total income stood at Rs. 2,424 crores, a growth of 6% YoY and 5% QoQ. EBITDA margins came in at Rs. 149 crores or 6.5% compared to Rs. 97 crores in the same quarter last year and compared to Rs. 119 crores or 5.4%. So an expansion of nearly 200 basis points YoY and about 110 basis points QoQ. PAT came in at Rs. 91 crores, nearly 4%, which is an expansion of 140 basis points from 54 crores in Q1 of FY25 and 70 basis points compared to Q4FY25 when PAT stood at Rs. 73 crores.

We registered strong growth in the Express Parcel business. As we discussed earlier, this is also post our acquisition of Ecom Express for which we recently received approval from the Competition Commission of India. The full impact of the acquisition of course will begin to show more in Q2. However, we did see significant improvement in volumes even towards the tail end of Q1. Parcel volumes reached 208 million shipments for Q1, which represents a year on year growth of nearly 14% and a quarter on quarter growth of 17%.

Our PTL business continued to show stable performance. We closed at 458,000 tonnes of freight in Q1, which represents a year on year growth of 15% and broadly flat quarter on quarter. Do bear in mind that Q1 typically is the lowest quarter of the year from a PTL standpoint and Q4 typically is the high watermark quarter for a fiscal year.

Quick snapshot of operational metrics. PIN code reach continues to stay consistent. We are present across 18,857 PIN codes pan India as defined by the Indian postal services. We continue to serve the entire world through our partnerships with FedEx and Aramex. Total number of active customers have expanded significantly from 35,000 in Q1FY25 to nearly 8,000 customers. As of this quarter, we closed with 43,000 active customers. Infrastructure continues to remain at about 20.4 million square feet of gateways and fulfilment centres, as opposed to 20.1 million square feet in Q4. Continue to operate 119 gateways. This includes a few new gateways that have been integrated from the Ecom Express network into the Delhivery network, 45 automated sort centres, 64 sorters. There's a mild expansion in the footprint of the entire freight business. We have 125 freight service centres as opposed to 118 in Q4, 161 processing centres. And we continue to expand the express delivery network in response to significantly higher volumes anticipated in Q2 and Q3. The total number of express delivery centres stands at about 4,500. Team size has expanded to 65,849 people with 52,000 partner agents and 17,000 vehicles on a daily basis.

Quick snapshot of financial performance. As I'd mentioned, overall revenue from services grew to Rs. 2,294 crores in Q1FY26 as compared to Rs. 2,172 crores a year ago and Rs. 2,192 crores in Q4FY25. The Express Parcel business has grown as a percentage of our total revenues on the back of increased volumes towards the tailend of Q1 and stands at 61% of total revenues. The PTL business continues to form 22% of total revenues. Express Parcel revenues have grown 10% YoY and 12% QoQ. We closed with Rs. 1,403 crores of revenue in Q1FY26 through 208 million packages delivered, which represents a 14% growth in volume and a 17% growth QoQ compared to the previous quarter.

PTL freight revenues have grown 17% from Rs. 435 crores in the same quarter last year compared to Rs. 508 crores in this quarter and broadly flat between Q4 and Q1. Freight tonnage has grown 15% YoY from 399,000 metric tonnes of freight in Q1FY25 versus about 458,000 tonnes of freight in Q1FY26. Revenue growth being higher than volume growth implies that yield improvements have continued in this business as well.

Supply Chain services business has de-grown QoQ and YoY. This is driven by two factors. One is, as mentioned previously, our exit from providing mother warehousing services to the quick commerce industry. And the second impact from seasonality with one of our major electronics and durables clients. FTL services revenues have remained broadly flat at about Rs. 150 crores a quarter and Cross Border services brought in Rs. 24 crores of revenue in Q1FY26.

In terms of profitability, profitability continues to expand. The highlighted column on the right refers to Q1FY26. As discussed, revenue from services stands at Rs. 2,290 crores. Total service EBITDA came in at Rs. 298 crores or 13%, which is an expansion of 60 basis points versus Q4FY25 and an expansion of 190 basis points compared to FY25 on the whole. Express Parcel came in at Rs. 228 crores of service EBITDA at a 16.3% margin. As discussed previously, we expected continued expansion in parcel margins from Q2 of last year, which was a low point at 15.1%. And we expect margins to continue to improve going forward. We will remain broadly within the normative range of 16 to 18% in the Express Parcel business as guided previously.

Part Truckload margins continue to remain stable. We brought in Rs. 54 crores of service EBITDA margin in the Part Truckload business in Q1 at 10.7%. This is to some extent affected by IndAs adjustments as well. Broadly, we anticipate that margins in the Part Truckload business will continue to rise with improvements in utilisation of the network. The big change, of course, is in the Supply Chain services business. We've continued to renegotiate commercial terms with several customers, and as discussed previously, shut down certain unprofitable accounts. As a consequence, margins in this business have improved significantly from 2.2% as of FY25 to 7.2% in Q1FY26, the business brought in Rs. 15 crores of service EBITDA this quarter.

In terms of corporate overheads, corporate overheads continue to remain flat as guided previously. In terms of broad percentage of revenue, corporate overheads have declined from 9.3% of revenue in FY25 to 9.1% of revenue in quarter Q1FY26. Do bear in mind that Q1FY26 also contains the impact of inflation on wages as this is our increment cycle. Wages have remained broadly constant at Rs. 114 crores. Technology expenses and General Administrative expenses have broadly remained constant as well.

We've invested Rs. 14 crores in new services. These are two new services as discussed previously. One of them is our rapid commerce initiative, which is a sub two-hour same day delivery service currently present through 20 dark stores in three cities. And the second is Delhivery Direct, which is an on demand intracity service launched at the moment in the cities of Ahmedabad, Delhi NCR and Bengaluru. Both of these businesses continue to scale and investments continue to be made both on the demand side as well as on building up supply. The investment levels are currently at Rs. 14 crores a quarter. This has led to an overall adjusted EBITDA margin of Rs. 75 crores or 3.3% of revenue and expansion of 80 basis points compared to Q4FY25 when we generated an adjusted EBITDA of Rs. 55 crores and more than double of the adjusted EBITDA from the same quarter last year. PAT stood at Rs. 91 crores or a PAT margin of nearly 4%, an expansion of Rs. 18 crores compared to Q4FY25 and an expansion of nearly 60% compared to the same quarter last year.

PAT trend continues to be heartening. As discussed, PAT came in at Rs. 91 crores in Q1, which is significantly higher than the PAT in the same quarter of last year. And the overall trend of improvement of Q1 is from negative 4.4% in Q1FY24 to 2.4% in Q1FY25 to nearly 4% in Q1FY26. We believe that the PAT margin will continue to expand through the rest of the year as well.

A short update on the Ecom Express acquisition. We received formal approval from the Competition Commission of India on June 17th, 2025. The acquisition was formally completed on July 18th and financial consolidation of Ecom Express into Delhivery will be effective from this date. The final purchase consideration as guided previously after the adjustments will be at Rs. 1,369 crores. From an integration standpoint, the volume and client side integration of Ecom Express is complete. No further volumes flow through the Ecom Express network and we are in the process of reconciling and shutting down the last few shipments which continue to be open within the network. All other volumes have been moved successfully to the Delhivery network and will reflect in Delhivery standalone volumes in Q2. The network rationalisation plan is also under execution. On a final basis, we expect to retain seven facilities in a combination of transportation and fulfilment operations. A significant portion of the network of Ecom Express has been rationalised and shut down and we anticipate that the entire network shutdown will follow the plan previously discussed. We have also begun the process to exit the non-express businesses of Ecom Express and anticipate that we will complete these exits by Q3 of this financial year.

Just a quick snapshot of Express Parcel volume growth. As you can see, volumes have consistently been on an uptrend throughout this calendar year. The deal with Ecom Express was announced towards the end of March. We presented a version of this chart previously. We have begun to see an upside to volumes in April and May. I'm pleased to announce that that has continued through June and has gone up significantly into July. Our belief is that this trend will continue through the rest of this quarter. Do bear in mind that this is an unusual year. The peak season this year is expected to be in the middle of September. Unlike last year, the impact of a large portion of the peak will be seen in Q2 and the early part of Q3.

That's a quick summary of our results. Broadly speaking, a highly positive quarter. We're very satisfied with where we've landed. I think big questions last time were really around the integration of Ecom Express. As mentioned, I think we've completed that integration quite successfully. Overall, very happy with where volumes have ended as well and obviously the expanded profitability. So very well set up for the rest of FY26. With that, I will pause. Happy to take questions.

Moderator:

Thank you, Sahil. We will now start the Q&A. Those who wish to ask any questions can use the raise hand feature. The first question is from Sachin Salgaonkar. Sachin, please go ahead.

Sachin Salgaonkar:

Thanks, Apar. Congratulations on a good set of numbers. I have a few questions. Let me go through the questions all at one time and then I'll hand it over to you guys.

Number one, Express Parcel volumes have increased this quarter, but we did see the yield coming down. So is there a way to look at it that the incremental shipments which have come, have come largely at a lower yield or there's something else which is going out here?

Number two, after your Ecom Express consolidation, what impact should we see on the overall volumes of Delhivery? And I'm saying that because the follow-up question out here is, have all volumes moved in Q1 or are there incremental volumes which could be moved in Q2? And if any, could you help us quantify or understand what range that could be?

And a similar question is, what could be the impact on yields and margins from current levels after the Ecom Express consolidation? And lastly, Sahil and team, thank you so much for sharing the Shareholder Letter and your views across businesses. One sentence you guys mentioned was, Quick Commerce has created a material opportunity for our PTL division in the immediate term. Again, would love to understand what you guys mean by that. Anyways, you could quantify the upside opportunity out here. Thanks.

Sahil Barua:

Sure. Thank you, Sachin. So I'll go one by one on Express volume versus yield.

So fundamentally, yield is a function of volume mix, which is a function of clients, which is a function of the weights of packages and the distances that they travel. When I look at the overall weight per package across our Express Parcel business, consolidating both small parcels as well as heavy, there is a double digit decline in the average weight per parcel, which is not surprising because obviously, there's been growth in the small parcel business. And so as a consequence of that, yield has shrunk. So it's just an organic shrinkage in yield and has nothing to do with pricing. The yield, as we've discussed previously, does vary quarter to quarter based on these inputs. As an example, during the peak season, we typically see yields go up, because there's a larger percentage of heavy packages that come through the network. And I think that trend will continue in Q2 and Q3 as well. So nothing alarming on yield. Pricing remains consistent. If anything, I believe, as I've discussed previously, that irrational pricing led compression of yield that previously was a risk factor in the last two years is a materially lower risk going forward. One, obviously, is as we've consolidated Ecom Express, I think that gives us a certain amount of pricing stability in the market. And the second, as I've mentioned previously, I think independent 3PLs in this space need to cut burn rapidly, and especially in the face of inflating costs. So we do believe that there'll be no further compression on yields.

In terms of Ecom Express consolidation and impact on volumes, what you're seeing in Q1 is actually a very minimal impact of volume transition from Ecom Express to Delhivery. Really, most of it was only towards the end of Q1, in the last parts of June. The real impact, as you can see in the chart, the real impact actually is in July, which you can see there's a very materially higher trend for July than there has been for June. And our view is that that's a more representative level of volume that we will be at going forward. So there's a very large uptake that you should see in Q2.

With the new volumes coming in from Ecom Express, I think there's no reason to believe there'll be any negative impact on margins. I think, again, as I mentioned, depending on client mix in any given quarter, there may be some impact on yields and there may be a marginal impact on margins here and there. But broadly speaking, we anticipate that margins will actually expand as volumes go up. And so we'll easily be in the 16 to 18% range.

In terms of Quick Commerce's impact on PTL and the opportunity it creates, I think the main opportunity that it creates is brands who work with Quick Commerce companies, whether it's FMCG companies, packaged food companies, whether it's grocery, whatever it is. There's a large amount of B2B consignments that get shipped to both the mother warehouses of Quick Commerce companies as well as the dark stores of Quick Commerce companies. This is a complex delivery process because it involves, for example, taking appointments with the mother warehouse, making sure goods are delivered within that appointment on time and in full. This is a service that Delhivery already provides outside of Quick Commerce. It's not particularly different from what we would do for a seller trying to consign stock, for example, to an FBA warehouse or to a Reliance warehouse or a Flipkart warehouse. So it's fundamentally a similar kind of service. Now, what's interesting, of course, is that it's now a new channel that has been created and a new opportunity for us.

What makes this obviously a complex delivery is the process of coordinating with large number of Quick Commerce mother warehouses and ensuring on time delivery, integrating with their systems to make sure that appointments are delivered on time, managing proofs of delivery electronically, making sure that POs are properly reconciled between the brand, the logistics partner, which is us in this case, and the mother warehouse or the dark store. And potentially, it also opens up an opportunity for returns from mother warehouses and dark stores back to brands. So that's the large opportunity that we see. And it's actually been a pretty exciting part of the PTL business over the last two or three quarters.

Sachin Salgaonkar:

Thank you, Sahil. Just a quick follow up out here. Since the acquisition of Ecom Express, are you seeing any change in terms of competitive intensity? And I'm saying that because one of the statements in your Shareholder Letter was for the last couple of years, there was poor pricing discipline amongst multiple 3PLs. Anything changed in the near term since your acquisition or that continues to be an issue?

Sahil Barua:

So, the irrational pricing that I've spoken about did exist and logistics is really not one of those spaces where, pricing below cost is a good strategy as obviously evidenced by our acquisition. But as I mentioned, I think what we've seen is a reduction in the intensity of price competition. I wouldn't like to necessarily take credit for us having driven sense into the market. I think it's the financial constraints that companies which price irrationally face in the first place. So obviously, with the acquisition of Ecom Express, all of the contracts that we've negotiated with clients are at Delhivery pricing. Of course, clients get volume discounts for giving us larger volumes, but on Delhivery terms. So the irrational pricing has been cleaned out at least out of what was the erstwhile Ecom Express network. But I do believe that other 3PLs in this space have also signed contracts in the past, which are below cost. And as I've mentioned, logistics costs inflate in a very predictable manner.

So wages in logistics, for example, will typically inflate 7% to 8% a year. You know, rentals will inflate anywhere between 5% and 8% a year. And fleet costs also inflate at a fairly predictable rate. So the reality is that I think, whether Delhivery does anything or not, balance sheet constraints will force independent 3PLs in this space to make sure that they're disciplined about pricing.

Sachin Salgaonkar:

Very clear. Thank you and all the best. Thank you.

Moderator:

Thank you, Sachin. The next question is from Vijit Jain.

Vijit Jain:

Yeah, thank you for the question. Congratulations on a good Q1. My first question is, in the last quarter, I think you said you were aiming to retain 30% of the volumes of Ecom Express.

That was what you were budgeting in your acquisition price. Do you have a sense of what was the volume of Ecom Express as it existed in April, for example, that you've retained? Yeah, that's my first question.

Sahil Barua:

You want to ask all of them in a go?

Vijit Jain:

Yeah, sure. The second question is, you also, last quarter talked about, your sense that self-sourcing at some of the other horizontal players was peaking. You expect that to continue to play through. Has that progressed along expected lines, as you see players ramping up for the festive season ahead? That's second.

The third question I had was, if you can give a broad sense of the category mix that you see on your network in, in categories that you mentioned are not amenable to quick commerce. So, apparel, consumer electronics, home and lifestyle goods, heavy, etc.

So those were, those are my questions. And if possible, if you could talk about, what will be your recurring costs apart from the integration costs that you will incur, the recurring costs from Ecom Express from Q2 onwards?

Sahil Barua:

Yeah, sure. So in terms of volume retention, our assessment of the deal at that time was based on a 30% volume retention of Ecom's volumes. What I can tell you, without disclosing specifics, is that we have retained significantly more than the 30% that was planned originally, which is reflected in the chart that Apar had shown previously. I think, broadly speaking, we will be close to perhaps somewhere in the 55% to 65% retained volume already. And this continues to rise month on month.

Part of the reason, as I mentioned, is that this has been a tough quarter from a logistics standpoint for other players in the space, owing to obvious profitability constraints. And also, the reality is the operating environment in Q1 has been pretty complicated with rain and a number of other kinds of disruptions. And so we have seen a flight towards quality. So that's been a positive for us. In terms of change in insourcing strategies, I think clearly we've retained more volume than we anticipated. So as you can imagine, we have gained share across all client types. Earlier, of course, we always used to talk about the fact that we were growing share rapidly with direct-to-consumer and SME segments of the market. But as I look at our volumes, across an absolutely broad swath of clients, we have gained a significant amount of share, including the marketplaces. I think, of the three key marketplaces, at two of them, we do see an increased interest in outsourcing to Delhivery. They obviously continue to maintain in-house arms. There's no question. But equivalently, the consolidation towards a quality partner who is reliable, that trend is also visible.

At the third marketplace, also, we have seen an expansion of our share of wallet. But I think the reality is that until the marketplaces with completely captive arms, and I'm not counting Valmo here, are able to account properly for the cost of doing in-house logistics, the true comparison internally to them also will not be perfectly clear. I think costs are still, relatively speaking, for lack of a better word, hidden between retail arms and logistics arms. So it's too early to comment on whether there's a very material shift.

That said, I will point out that the same inflationary pressures that I've spoken about that apply to third-party logistics companies apply exactly as much to first-party logistics companies as well. They aren't exempt from wage inflation and rental inflation. And so we're very confident that our ability to manufacture productivity gains and efficiencies in our network significantly outstrip other players in this market, whether they are first-party or third-party players. And so the reality is that our cost advantages expand every year. You know, we've been talking about this since the time that Delhivery has gone public. And I realise that for the first year or so, that may not have shown up in our numbers. But as you can see, with the acquisition of Ecom Express and what you see in July and August, I think reality does catch up. And so it's a matter of time.

In terms of the broad category mix, I won't be able to provide you a break-up of our volumes by category, but if I take some very, very broad numbers, my sense is maybe softline is probably about half our volumes. You know, FMCG, BPC kind of categories are maybe about a quarter. And the rest of it is just a very broad mix. Grocery is practically zero, unsurprisingly. It's not a category that we intend to play in. And in terms of recurring costs, the integration costs, as we've mentioned, our envelope was about Rs. 300 crores that we anticipated. And we will report that separately in Q2 and Q3, calling out quite clearly what the specific integration costs from the Ecom Express acquisition will be. Those will largely be limited to certain people-related costs that will persist through Q2 and Q3. And certain costs in terms of winding down leases and certain fixed contracts that they've had. As of now, we don't anticipate that we will breach that Rs. 300 crore limit. But in terms of recurring costs, there will be none, no further recurring costs. Because as the volumes go up, it's as if we were expanding the Delhivery network itself.

Vijit Jain:

So if I can just follow up, so there is no cost associated with anyone who comes on board, any cost at all, that's what you're referring to as none, right?

Sahil Barua:

Yeah, because if we were to do, whatever x million number of packages compared to, let's say, the 60 million average that we were doing in Q4, we would need to hire people ourselves, right? So it's not classified as a recurring Ecom Express cost. Got it.

Perfect. Thank you so much. Those were my questions.

Moderator:

The next question is from Sachin Dixit. Sachin, please go ahead.

Sachin Dixit:

Hi Sahil and team, congrats on a decent set of results. My first question is on supply chain services, right? That's a business which seems to have a good moat, but it's like hit and miss. It does well for a few quarters while it doesn't for the next few quarters. Obviously you have highlighted multiple times it's slightly lumpy in nature, it's not linear but in your Shareholder Letter you are talking about roughly Rs. 1,800 to Rs. 2,000 crore of revenue in three years which I'm guessing is FY29. So can you talk about what is giving you the confidence that finally that business will see a sustained growth trajectory?

Sahil Barua:

Sure, do you have more questions?

Sachin Dixit:

Sure, the second question was on the volume piece on Ecom, right? So you have already highlighted that the volume retention is happening at a much faster clip. So the point being that when we are talking about 30% volume retention we are expecting the Valmo impact being there and a lot of volume going out. So what has really changed there? Is it that your one of the largest customers is struggling to ramp up capacity or anything which is why you are in such a better situation compared to what you were anticipating? That's my second question and those are the two questions.

Sahil Barua:

Sure, I'll start with the second one in terms of why volume retention is higher than expected. As I discussed I think when we were evaluating the deal it was our fiduciary responsibility to take a conservative view of the world. You know we've been doing this for a while, we are a conservative team and we've been pleasantly surprised is perhaps the simplest way to put it.

The reality of the market however is different from the past. I don't think it's a fundamental shift in the strategy that Meesho has with respect to Valmo or Flipkart has with respect to Ekart logistics. But I think the reality is as the operating environment becomes tougher and as e-commerce principals realise that third-party logistics firms who price below cost merely to get a share of volume cannot survive. There's a flight to quality and over a long period of time quality players will get rewarded and that's what you're seeing. Fundamentally, Delhivery is a large network which is highly reliable and very fast. You know the other advantage that obviously is inbuilt within the Delhivery network is that the volatility of tonnage within our network owing to Express Parcel is now increasingly very small and so our ability to handle large swings in Express volumes obviously has significantly improved by running a PTL business and the benefits of that flow to our Express customers as well. And so it's not surprising that clients are choosing to allocate volumes away from lower quality players. I've mentioned this in the past I do think over a long period of time Delhivery and Blue Dart are the two highest quality networks in the country and for us, for the specific businesses that we run - in our case a large surface Express network and in their case an air network, you will see volumes accumulate towards the two highest quality networks. You know pricing can only get you so far but the reality is that no customer is willing to pay a lower logistics cost for packages just to not get delivered and that's effectively what you're seeing.

In terms of Supply Chain services I think the fundamental shift in Supply Chain service over the last year has been as I've mentioned, as we have done in PTL in the past, as we have done at Express Parcel in the past, I have discussed this as a management team we've been very clear that the ability to make money comes before chasing growth. You know that's exactly the trajectory that we followed in PTL as well. If you go back about eight quarters you'll remember that we went through a U-shaped curve for PTL as well. The logic was that we would first fix the business and then start growing it rapidly.

On Supply Chain services we had a number of things that we needed to do. One was really fundamentally renegotiating contracts that had not been priced the way they should have been. Get out of sectors that we wanted to explore but fundamentally have now reached a conclusion that we don't want to participate in and that's really the impact that you're seeing in the last financial year. We experimented with getting into fulfillment for Quick Commerce and then realised that the inventory issues in that business are fundamentally too large for a third-party logistics company to bear and we've exited that sector. So, I think what you're seeing now is a business which is starting to resemble what it will look like from a profitability standpoint. I think there's still margin expansion that will happen in the SCS business as we scale. That's a story that will still play out over the next couple of quarters but what we're getting better at is pricing contracts correctly.

The second thing obviously is improving the quality of our underlying software whether it's our warehouse management systems or transportation management system and driving efficiencies through those. So I think that's matured as well.

As I look at our pipeline, at this stage our pipeline is healthier than it's ever been before. At this stage, we've got probably close to about Rs. 300 crores of broad supply chain mandates which are in various stages of conversion. Now conversion in this business can take three to four months because it's a long sales cycle but given our visibility of the pipeline we're very confident. Frankly speaking, at this stage from a pure pipeline standpoint, we probably have more than Rs. 1,000 crores in the pipeline. Now over a three-year period we can convert six-seven hundred crores of that. I am pretty confident that we'll be able to do that. So fairly confident that we'll get to the Rs. 1,800 - 2,000 crores in SCS.

Sachin Dixit:

Got it. Just one final confirmation if I may have the numbers or the guidance that you've given in the Shareholder Letter, these are inclusive of Ecom Express impact right?

Sahil Barua:

Yeah.

SCS, Ecom Express, no?

Sachin Dixit:

No, not SCS. I'm talking about generally. You have given the service EBITDA margins for PTL, Express Parcel. All those are inclusive right?

Sahil Barua:

Yes yes.

Sachin Dixit:

Thank you and all the best.

Moderator:

Thank you Sachin. The next question is from Aditya Suresh. Please go ahead.

Aditya Suresh:

Hi Sahil and team thank you for the opportunity. I have three questions if I may. So Sahil first is if I can take you back to slide six on your key KPIs.

If you can just give us a glimpse in terms of what are the changes we'd expect with the Ecom consolidation, the key changes which you'd like to call out. That's one. Second is in the market structure itself within the Express Parcel. What is your sense about within 3PL your market share here today, even if it's a broad range that'll be great and where do you think this could settle at in say the next 12-24 months. Third is on PTL. Is there a broader theme about value or volume this quarter? Is that a fair kind of read into what happened this quarter and then within this margin at 11%, would it be a fair conclusion to say that if volumes expand sequentially then margins can only expand towards your guided 16-18%? Thank you.

Sahil Barua:

Sure, thanks Aditya. Apar, if you just go to slide six. Yeah, so broadly speaking, with the Ecom Express acquisition and the July volumes and continuing from here on I think the big change will really be one in the number of express delivery centres and partner centres which we are currently at about 4,500. My sense is you should see this number at probably close to about 4,750 to 4,800 by the end of the year. The team size obviously it'll go up during the season, it will come down after the season, hard to say exactly what it will be but it'll follow broad trends in line with volumes. From an infrastructure gateway standpoint you will not see any major change and that's part of the reason why we wanted to acquire Ecom Express. In the first place we don't believe that we need to significantly increase our Express Parcel infrastructure or our gateways or our automated sortation centres to absorb the additional volumes that will come in from the Ecom network. As mentioned there are no volumes in the Ecom network at this stage. All of them are coming into the Delhivery network and our network has absorbed these fairly seamlessly, so absolutely no change there. I think there'll be some expansion of pin code reach. We are at some 18,857. Ecom obviously had a wider reach than Delhivery, so some of those will get activated over the next quarter. I don't know exactly what it'll reach but let's call it maybe 19,200 or thereabouts.

In terms of market structure, we've obviously gained market share in the last quarter. Hard to put an exact number to it but my senses and different people have different interpretations of this but I would expect that our market share would have expanded. Ecom Express was probably about 50-60 percent of our size so our market share has probably expanded by about 25 percent or so. Possibly higher but I'm not entirely sure. I think that I'll give you a much better answer maybe at the end of Q2, Q3 when things stabilize a bit more. Right now things are in flux, volumes continue to increase.

And where does it settle in the long term, that's a nuanced question. It really depends on what happens to the rest of the third party market. As I mentioned previously, the unit economics of other third party players are unsustainable and we've seen how that plays out once already. Now how that plays out with the other players in the market I can't say but there is no road to better unit economics in their cases and so the reality is that market share should continue to consolidate towards more disciplined players and higher quality players and again as I mentioned who those players are, is pretty clear. I think the only risk that one could think of is what would happen if first party players were to try to expand into the third party market to which my response as ever remains the same. It is a tried strategy that has failed and so we don't anticipate that's a major risk.

In terms of PTL, it's not so much value over volume actually. If you look at the rest of the industry also, broadly speaking, I think most PTL players have seen sequential declines from Q4 to Q1. Minor decline or broadly has stayed flattish. That's largely because Q4 is the peak quarter so Q2 and Q4 tend to be larger quarters in PTL. Q1 and Q3 tend to be slightly lower. Q1 also has this artificial impact of two 30-day months and there were also disruptions in Q1 for a variety of reasons. One of them obviously was a significant amount of rain.

There was a certain amount of disruption from Operation Sindoor as well in this period and there have been some festive disruptions so no particular change in the PTL strategy. I think it's just overall that's what the market is like. We anticipate that we'll be back to business as usual in this quarter and beyond.

Aditya Suresh:

Thanks. May I just ask for a follow-up if that's okay?

Sahil Barua:

Sure, please.

Aditya Suresh:

So just on PTL right. So the guidance is 16 to 18 percent. Is there a broad tonnage which you think about which you need to hit to achieve that level of margins?

Sahil Barua:

Yeah, I think I just have a number and then I think Amit should just quickly come in on this. My sense is at about one and a half times this size we should be at those numbers.

But Amit, please come in here.

Amit Agarwal:

So, thanks. Roughly at close to about 600,000 to 640,000 tonnes of quarterly load which translates to about 200,000 to 215,000 tonnes of monthly load whereas currently we are posting an average of about 150,000 tonnes of monthly load, three things will kick in. One is that fixed cost utilisation will go up. We will get significant benefits of operating leverage on that. The second aspect is that the utilisation of our trucking will continue to improve on reverse lanes and a bit of it on forward lanes as well. Tractor trailer penetration will also increase. And lastly pricing discipline and churning out of low margin customers will continue to happen. So these three things should comfortably give us a 7 percent uptick on margin.

Aditya Suresh:

Thank you. Thank you for the clear answers as always.

Moderator:

Thank you, Aditya. The next question is from Gaurav Rateria. Gaurav, please go ahead.

Gaurav Rateria:

Hi, thanks for taking my question and congratulations on a good set of numbers. I have a couple of questions. I will read it out all and then pass it on to you guys.

The first is how much of the benefit of volume from Ecom has already come in the financials in Q1 as the network was unstable and the volumes were coming through to strong players like us. Second, your comment that you made on incremental Ecom volumes coming at the Delhivery rates, which my understanding is that could be higher, but then there would have been some volume discount. So is it fair to say on a net basis there would have been some pricing gains as those volumes now pass through the Delhivery's network?

Third question is on your comment that you made on PTL on 20 percent plus annual tonnage growth while Q1 was slightly short of this number. So what drives your confidence to hit 20 percent on an annual basis, which means that your ask rate for Q2 to Q4 will be materially higher than 20 percent. So any anecdotes that help us to understand what drives that incremental gain.

And last question is on, you mentioned about a couple of new value added services on the FTL segment. So just trying to understand, are these material TAM opportunities or are these material gross margin opportunities from company's point of view? Thank you.

Sahil Barua:

Yeah, sure. I'll probably bring in some of my colleagues also since these are good questions. In terms of the benefit of volume from Ecom Express, I think I answered this earlier in the call, the impact on Q1 is not that high. It's only towards the end of June that you see some of the impact. So you can see the liftoff begin. We've obviously gotten to 208 million packages in Q1, but July obviously has been significantly higher and we expect that it will continue . So the real impact will be visible in Q2. And I think network businesses have one other advantage. Like Delhivery's, which is, given the kind of network that we are, the more the volume that flows through our network, the more stable the network actually becomes. Most other networks, which are not constructed like ours, tend to have a reverse problem, which is that the more volume that goes within, the less stable they become. But the advantage of a mesh, as we've discussed, is that actually stability is an outcome of higher volumes. And so potentially, while the obvious immediate impact of the Ecom acquisition will be clear in the Q2 numbers, over the long term, I think the reality is the opportunity for us is potentially even larger.

In terms of the volume discounts to customers, I think my colleagues are on the call who deal with customers on a more regular ongoing basis. So maybe Ajith or Vani, if you guys want to comment, please go ahead.

Ajit Pai:

Yeah, I'll take that and Vani, you can add to that. I think most of our relationships with customers are based on a pricing volume chart, which is how we've always conducted business. We are not seeing any material changes to that. In some cases, of course, there are adjustments that we do during the year to reflect any change in the client's business in terms of mix, etc.. And hence, our desire or their desire to change the mix for us or to introduce new products at some points, I think, like Sahil mentioned, that has been broadly very, very stable. With the Ecom acquisition, again, like it was mentioned by Sahil, we expect that scenario to remain stable going forward as well.

Sahil Barua:

Yeah. I think the third question is confidence in PTL at 20%. I mean, see, I'm very confident, better that you hear it from the horse's mouth.

So Varun Bakshi runs this business, I'll ask him to comment.

Gaurav Rateria:

Yeah.

Varun Bakshi:

Hi, Gaurav. Am I audible?

Moderator:

Yes, Varun, you are audible. Please continue.

Varun Bakshi:

Yeah. So first of all, the year on year growth of this business is 17% on revenue terms. So the growth in terms of getting about a 20% growth for the year, it's not going to be linear, first of all. So there will be quarters with slightly lesser, there will be quarters with slightly more growth. Number two, I think, as Sahil mentioned, when he was going through the presentation, this quarter's revenue got slightly impacted by the accounting adjustments, the IndAS adjustments that we need to do to follow the statutory requirements. So adjusted for that, the 17% growth would be slightly higher. In fact, our yields quarter on quarter have increased over Q4 as well. So that is a result of a certain churn of customers which we were voluntarily doing as well. So adjusted for that, I think the business gives us confidence that it would be able to meet the 20% revenue growth expectations that we have for the business.

No reason to say anything otherwise at this point.

Sahil Barua:

Yeah. Gaurav, the other thing, there was a material impact because of Operation Sindoor, there was some impact because of the rains in certain places. And it is getting worse, obviously, year on year, but here on at least the monsoon appears to have died down to a significant extent. And so we should see less impact from that. I think so far numbers in Q2 are good. July has been fine. So fairly confident. I know it is obviously a question saying if you grew 15% in the last quarter, why do you believe we will grow 20% for the year? I think let our Q2 numbers come out. And I think at that stage, things would be a little clearer.

In terms of FTL, VAS, I think it is too early to comment. These are important services that bind high quality supply of trucking into the FTL marketplace. So, these are value added services, for example, the simplest one that we can do almost on an immediate basis is fuel procurement support to some of our trucking partners. And the other one, obviously, is on-road assistance and control tower services for our clients, which are things that we anyway do internally for Delhivery's own operations. So, both of those we will do.

These are theoretically large TAMs. But just to be perfectly clear, Delhivery's ambition is not to become the largest retailer of fuel to trucks. So, it should not be viewed in that fashion either. We have very specific strategic objectives for our FTL business, which is fundamentally, first of all, to bring down the cost of trucking procurement for Delhivery's own transportation operations.

The second is to be a large input and a very efficient procurement mechanism for our Supply Chain services division, which is what it is. And then the third, obviously, is to be an extremely capital light way for our clients to discover trucking services and especially spot trucking services via our trucking marketplace. So, as long as this allows us to make sure that high-quality suppliers of this service are bound into the Delhivery network, we will provide these. But we have no desire to come and start banging about metrics like we have 4 billion trucks on our platform or whatever, and we sell fuel to some 75% of them. That's really not the aim.

Gaurav Rateria:

Thank you for the detailed answers and all the very best.

Moderator:

Thank you. Thank you, Gaurav. The next question is from Achal Lohade. Achal, please go ahead.

Achal Lohade:

Yeah, thank you for the opportunity. Congratulations for a great set of earnings. Sahil, a couple of questions. First, if you could talk a little bit about the utilisation of the network, where are we in terms of the efficiency? I know it has got partially answered in piecemeal, but just on a top-down basis. The second question I had was, when we are looking at incremental volumes coming through month on month, it's improving. Why would the margins be between 16 to 18%? Why not more expansion? If you could elaborate a little bit.

And number three, for the quarter, we have seen the other income has gone up to about Rs. 1.3 billion. So, if you could talk about that as well in terms of whether it is sustainable, or is there any one-off we need to note? Thank you.

Sahil Barua:

Sure. In terms of utilisation of the network, we've discussed this in the past as well, much as I would love to tell you that the utilisation of the network is 42%, there's no way for me to really say that, because the reality is the utilisation of the network differs at various points.

Line haul utilisation is different, sort centre utilisation is different, DC utilisation is different. And obviously, the numbers for July are going to look very different from the numbers for April, May, and June, because the volume trajectory has meaningfully changed. But fundamentally, one way to think about it, Achal, is that we did 208 million consignments versus, let's call it 180 million consignments in Q4. And if you look at the spread of distribution centres, we had broadly, I think, 4,450 distribution centres, including partner centres in Q4. We have 4,500 in Q1. So, for whatever 1% increase in delivery centres, we have had a 14% increase in volumes. All those volumes are delivered through distribution centres. And so, therefore, the utilisation of the distribution centres has gone up to that exact mathematical extent. And by the way, you can do exactly the same math for sortation centres, you can do exactly the same math for hubs and gateways. We have a constant set of sortation centres. And so, if the volumes have gone up 14%, and we haven't increased the total number of sortation centres, the utilisation of the sortation centres it follows must have gone up by 14%.

Line haul is obviously the hardest one to talk about, which is the trucking network. Trucking utilizations, because they also depend on the directionality of the loads that one is creating, I think broadly speaking, as I mentioned, have been in that 60% to 65% kind of range. One of the things that has changed a little bit in Q1 is that there was a marginal expansion of our tractor trailer fleet, while PTL volumes were flattish. So, there may be a marginal decline in trucking utilisation between Q4 and Q1. The second is that we have also begun experiments as I mentioned in the past with double trailers on a tractor. And so, there may be a marginal decline in utilisation on reverse lanes associated with that to some extent. But it's very hard to put a very scientific number to it.

The question on should margins go beyond 18% given that there is no adverse movement expected on pricing and the network filling up, as I mentioned, we have guided to the 16% to 18% previously, not because that is what we believe is the theoretical limit of the network. We have operated a network at higher than 18% service EBITDA margins in peak months. But it is a conscious call to share a certain amount of efficiency with clients. Now, whether we will share all of the efficiencies that we create going forward or not, I think it is a strategic choice that we make looking at every single customer. Technically speaking you are correct, our current margins as volumes expand could expand beyond 18% range as well in the express business. The other thing I have spoken about in the past is that the larger the PTL business gets, the better the margins for everybody. And therefore, when PTL business reaches whatever, let us call it 200,000 to 250,000 tonnes of freight on a monthly basis, the reality is the Express Parcel margins have scope to expand further. We also obviously continue to look at new ways of automating our operations, which again have a positive impact on margins.

So the way I would look at it is to say, if you must model this, feel free to conservatively model our margins at 16% to 18%. There are opportunities for us to expand it beyond the 18%. So you will either see that as incremental margins in the business, or you will see it as an incremental share of wallet if we choose to pass those benefits forward, but either which way the absolute service EBITDA will continue to expand.

On your last question, in terms of other income, I think, again, I will just ask Amit to comment.

Amit Agarwal:

Yeah, the increase in other income is primarily due to increase in value of mark to market securities due to interest rates going down in Q1 of the current fiscal year. In the subsequent quarters, we expect this to normalise to our earlier level and maybe slightly go down because the yield curves have gone down. However, as you are aware, we have paid close to Rs. 1,400 crores to acquire Ecom Express on 18th of July. And hence, no further interest income is going to accrue on it. So that will be one change to the other income going forward.

Achal Lohade:

Yeah, thank you so much. And those were my questions.

Moderator:

Thank you, Achal. The next question is from Mukesh Saraf. Mukesh, please go ahead.

Mukesh Saraf:

Yeah, good evening, and thank you for the opportunity. My first question is, could you give some sense on the volumes that Ecom has done in the first quarter? I think you had provided some indication on what it had done in the fourth quarter. So it would help if you could tell us the volumes of the first quarter.

Sahil Barua:

I think broadly speaking, in Q1, Ecom Express would have done something like 30 million packages.

Mukesh Saraf:

30 million. All right. And you had mentioned that we're probably retaining, say, around 50-55% of the volumes higher than what you had thought earlier. So my question is that probably, based on this high

retention, your wallet shares with some of the marketplaces would have kind of gone higher. And typically, the understanding that we had is that marketplaces would not want a particular service provider to kind of get too large with themselves.

So is this like a temporary phenomenon until the marketplaces kind of figure out and redistribute these volumes out and hence you might lose some volumes later on? Or do you think this could be sticky going forward as well?

Sahil Barua:

I think I've answered this. First of all, you don't always get what you want. But on a more serious note, the reality is that where will the volume go? The volume ultimately has to be delivered, not merely handed off to the lowest cost service provider.

Mukesh Saraf:

Right.

Sahil Barua:

There's no marketplace or direct-to-consumer brand or SME or aggregator, international shipper who's merely going to say, as long as I get a 4 rupee discount on shipping, I don't care whether the package gets delivered or not. So what you're seeing is not just the impact, as I mentioned, of our cost efficiencies, which obviously also reflect in the fact that we were able to complete the acquisition of Ecom in the first place. But this is a movement of volume towards higher quality players.

And increasingly, as marketplaces get larger, they will look for a reliable partner. I mean, I would struggle to think of why Walmart, Amazon or Meesho for that matter would say we're happy to have an unreliable partner just because we happen to have in-house logistics. So I don't believe that unless we commit operational harakiri, there is any reason for our volumes to not be sticky.

Mukesh Saraf:

Got that. Got that. Understood.

The second question is on the Rs. 14 crore investment basically, that you're talking about on the new businesses. Could you, kind of, help us understand, probably in the next year or so, how this could, how the business itself, the revenues here and how the profitability here could materialise? Because as of now, it's literally wiping out the service margins that we're making on the Supply Chain business.

So first of all, how much could this go upto in terms of losses? And secondly, how do we see that turning profitable, say, over the next year or so?

Sahil Barua:

These businesses are very small. To give you an example, the on-demand intracity logistics market, you read the Red Seer reports, is estimated at some 10 billion dollars. I don't know whether it's 10 billion or whatever, but suffice to say it's very large. Our entry into this market is approximately 100 days old. So it's a bit too early to comment on what the size of the business for Delhivery will be and what the exact investment levels will be. I think it's a capability that we think is a significant growth driver.

The second thing is that it's a service that's valuable to existing customers of Delhivery. As an example, Delhivery Direct also allows you to perform on-demand intercity shipping. So that's an extension to also allow customers to do on-demand intracity shipping.

So I think the investment levels will vary a little bit. It's the first quarter. Let's go through another one or two quarters. Let the operations for Direct, for example, in Ahmedabad, Delhi and Bengaluru, stabilise. What I can tell you as an example is Ahmedabad is the first city that we launched in Delhivery Direct and we are at contribution margin break even in about four months.

Hopefully, we will follow a similar trend in Delhi and Bengaluru. But the reality is that Delhi and Bengaluru are four times the size of Ahmedabad. So some things are still to be discovered but I think the opportunity is large.

Mukesh Saraf:

Sure. Understood. Thank you.

Moderator:

Thank you, Mukesh. The next question is from Aditya Mongia. Aditya, please go ahead.

Aditya Mongia:

Thank you team for the opportunity. Three parts to the first question. First, Sahil, you were for the first time talking about this flight to quality. Obviously, there were some factors in the first quarter that were transitory in nature, but could you speak a little bit more on what is something that can structurally drive a trend towards flight to quality? That's the first part.

The second part of the question is for you and your peers to be kind of giving good service in this kind of an environment, is it essential to have a Part Truckload service to balance things out? And if the answer to part B is yes, do you see other players in a manner to kind of survive and grow, attacking the Part Truckload market from here on quite aggressively?

Sahil Barua:

Sure. Yes and no.

Is it essential to have a Part Truckload service to deliver high quality service? I think in a world in which you have volatile volumes, it helps, obviously, but it is not the sole factor that enables you to deliver high quality service. High quality service is delivered by 14 years of investments in automation, software, teams, training, which is a lot more than just merely running a PTL network. So yes, it does help to some extent, of course. And that's largely because the math is pretty simple. When you do, let's call it 60 million packages a month, and on average, they weigh whatever, let's call it a kilogramme, you're only moving about 60,000 tonnes of freight. Whereas the reality is the PTL business is moving 150,000 tonnes of freight. And so the delta variations, when the parcel business spikes on the overall tonnage of the network are pretty small. Whereas if you were running a parcel only network, obviously, the delta variations would be larger. But it's not just a consequence of having the ballast of the PTL business. It is the underlying network structure, it is the automation, it is the software. And these are investments, as we pointed out, that have been in the making for a long time.

Can other players attack the PTL business? You know, I think one of our competitors has been trying to do that for a couple of years now with hardly any success. Anybody can run a PTL network, anybody can take PTL loads, that's hardly complicated. And the answer to that is the markets are unorganised and everybody from one truck to 1000 trucks runs a PTL network. But integrating it with a parcel network is really very hard. Even other players who've tried to experiment by putting a PTL business together, Express Parcel players, by that I mean, fundamentally run the Express Parcel and PTL networks on different rails. And therefore, they are not an integrated network.

Now, the reason why building an integrated network is hard, is because you have to figure out complex things like how do you match cutoffs? How do you manage multi piece shipments versus express loads? How do you make sure that the right kinds of goods get onto the trucks? And in a dynamic environment, that is a materially difficult problem to solve. So will people try to do a PTL business, I think various people will look at Delhivery strategically and possibly think of it as a silver bullet. But the problem is that the investments in software, automation, technology and the team that are required to make this work are highly non-trivial. And I actually don't think that most of those attempts are going to be successful. And they actually have not been successful for a couple of years already. So you can try. And even if we, for example, were to give out our entire technical back end, all our people were hired by some competitor, it will still take you years to actually construct the facilities, still take years to actually train the teams and make it executionally possible.

So in theory, yes, obviously, over a long period of time, any competitive advantage can be replicated. But in practice, I think it's going to be very hard. And then you have to factor in that for existing 3PLs the attempt to try and do this while the balance sheet is shrinking pretty rapidly. So I think the number of real strategic options here are for all practical purposes zero.

In terms of flight to quality, can you just help me out? I didn't fully understand your question. You said what will it take to structurally drive flight to quality?

Aditya Mongia:

That was not the question. The question was that obviously, there are some transitory factors, like whatever, weather, Operation Sindoor and so on, so forth. And beyond that, are you really seeing some structural factors that are here to stay that are making customers more conscious and starting to think through vendors in a different light than earlier?

Sahil Barua:

No, who will this really affect, because in direct-to-consumer and SME anyway, our share of wallet to begin with was very high. And so fundamentally there, I don't think there's been that much change. I think it's for the marketplaces really, where things have become a little bit different.

I think Meesho has specifically started doing logistics on their own. And they discovered that logistics is hard to do. I think there's a greater appreciation for what it means to create quality in a transportation network. And they're obviously improving the operations in Valmo as well. But at the same time, I think what they want is a highly reliable partner. The second, obviously, is that the volatility in these businesses also seems to have increased. If we look at Q1, the inherent volatility in the marketplace volume seems to have increased. Now, that could be just a factor of Q1 being the way it was. But again, you'll have a peak season, there will be more volatility.

And so I think as the volatility goes up, they are finding that other networks don't have the ability to take that on. And, in some senses, I guess, the more variable the weather becomes, the more festive seasons have an impact, and the more these guys go after growth, the more they will have to rely on high quality partners.

Aditya Mongia:

My second question was more on, let's say, as in the context is that it seems that your existing businesses, until and unless the team commits some operational harakiri, some operations are going in autopilot mode. How are you thinking of investing your time and the company's financial resources into newer ventures? I'm unsure if this is the right time or not, but more time on acquisitions or more time on air cargo, how are you thinking through investing time and resources of the company from here on?

Sahil Barua:

Yeah, I wish an operational business could ever be on autopilot. But it's really not, I think, to create the impression of a business running smoothly, a lot of hard work does need to go in. And so I think a large portion of our senior teams' focus, whether it's mine, or Kapil, who's our CTO, or Suraj, who's our CHRO, or our corporate finance team, Amit or Vivek, etc, still obviously does go towards making sure that the existing businesses continue to run as smoothly as they need to.

There are long term operational challenges that we need to solve even for these businesses. But in terms of new services that we do need to launch, I think there are a few that we continue to evaluate. Two of those we've launched as an example are Rapid Commerce and Delhivery Direct, which is the on-demand intracity business. I think on Rapid Commerce, the story is yet to be played out. We have so far launched as a B2C Rapid Commerce player. Our view is that the B2B market for Rapid Commerce actually is very large as well. Think for example, auto spare parts, durables spare parts, tyres, and so on. These are the kinds of categories that we do want to bring in. And our view is that actually the B2C business over a long period of time will be much smaller than the B2B business in Rapid Commerce. And in some senses, the economics of B2C will be determined by Delhivery's ability to create a large B2B Rapid Commerce business. So we will do that.

We will continue to expand our Cross Border Express Parcel business. I think there's a growing demand from direct-to-consumer brands and SMEs for us to open up an economy product for them that allows them to ship across the world. Currently, we only provide an express product through FedEx and Aramex. So we will expand and build that. I think these are the more direct adjacencies. But we do continue to evaluate air freight. We do have a material amount of load that now moves on air freight. We're obviously not as large as Blue Dart yet, but we're a very large shipper on an aircraft belly. So that's something that Ajith and his team continue to evaluate. There may be a moment in time that it'll make sense for us to make a more decisive move on the air freight side as well.

Aditya Mongia:

Can I ask one more question, Sahil?

Sahil Barua:

Sure.

Aditya Mongia:

Your guidance that is there over the medium term about, let's say, close to high-teens margins in the Part Truckload business, does that take into account any material change in yields?

And I ask so because until last quarter, and I'm assuming that's continuing, your incremental customers saw great value and were actually giving you higher yields than your existing customers. That's the final question from my side. Any upside risks? Or what is the assumption essentially inside when you think to a certain margin number against the yield assumptions that you have?

Varun Bakshi:

So Aditya, yes, yields will play a role. Yields and the customer mix. So basically, as we have pointed out earlier, our customer mix is still a little less indexed to a lot of retail customers that are there in this industry. We do less of that. So as we increase that, which is a higher yielding business, more profitable even for us, whatever lesser we do at this point in time, as we increase that share, the profitability and the yields will continue to go up. What we have been doing over the last year is setting up teams geographically at the right place to tap this opportunity. Well, we have done that. We have started seeing results of that. You are seeing those in yields as well.

But we are far from where we want to be in that. So the answer to that is yes, partly because of this. And even I think in the existing customers, what we have seen over the last one and a half years, the customers, most of the customers, not all I would say, but most of the customers seem to be more quality conscious than chasing that last 20, 30 paise off pricing that someone can give them better.

So in that sense, the market is less price sensitive than probably it's perceived. So we do think even in our existing customers, there is a yield play as one becomes a better PTL player.

Aditya Mongia:

Thank you. That will be all from my side. All the very best.

Moderator:

Thank you, Aditya. The next question is from Ankit Agarwal. Ankit, please go ahead.

Ankit Agarwal:

Hi, team. Thanks for the opportunity and congrats on a great set of numbers. I just have one question.

Sorry to go back again on the insourcing strategy, because you have already commented here. My question is that given that there are some signs of consolidation in the market with you taking over Ecom Express, and there is a sequential pickup in e-commerce volumes in Q1, which we normally don't tend to see, given that this is a seasonally weak quarter. And you are also saying that volume for Ecom Express has not materially flown to your network in this quarter. So my question here is that, has there been any material change in the strategy around insourcing for one of your largest clients? I'm basically talking about Meesho, because they were the ones who were aggressively increasing insourcing levels since last year. So can you provide some comments on that? Has there been any stabilisation on their insourcing mix? Any colour on that would be great.

Sahil Barua:

Yeah, I think their insourcing strategy is consistent with what they have said in the past. It is at a level that they seem to be comfortable with. The important thing is that of the significant percentage that they outsource, a larger percentage of that is now accruing to Delhivery.

Ankit Agarwal:

Got it. And similarly, can you comment on anything around Amazon Transport Services and E-Kart on the same line? Has there been any change on that front for these clients?

Sahil Barua:

I think our volumes, as I mentioned, with all marketplaces have increased in Q1 and so far in Q2 as well. I don't think that represents a fundamental shift in how they think about in-house logistics. I think that will take some more time to materialise.

But fundamentally, since our volumes are going up, I think, as I mentioned, the shift in their thinking appears to be that instead of merely trying to go to the lowest cost provider, they are going to a highly efficient provider with the highest quality.

Ankit Agarwal:

Got it. Got it, Sahil. Thanks for the answer.

Moderator:

Thank you. The next question is from Mr. Kamlesh Ratadia. Kamlesh, please go ahead.

Kamlesh Ratadia:

Yeah. So, Sahil, historically, you've been mentioning that in Ecom Express, the incremental margin should be between 35% and 40%. Now that a majority of this revenue, which will come from Ecom Express, will flow through the Delhivery network, how should we think about incremental margins excluding the integration costs? So, on a recurring basis, should we think this would be materially better than the 35% to 40% that you mentioned earlier?

Sahil Barua:

So, the incremental margins that we've spoken about in the past are obviously based on a target service EBITDA margin of 16% to 18%, I think, here in this call, we were discussing this, as volumes go up, we will evaluate client by client, what kind of potential opportunities we have for share of wallet gain. And there is a possibility that service EBITDA may expand beyond as well.

So, really too early to say, I think the easiest way to think about this is that in the absence of any further adverse pricing, as long as that does not continue, and we don't believe it will continue, the reality is that the network's utilisation will continue to go up. As I mentioned, by the end of the year, as opposed to 4,500 Delhivery centres, as a simplest example, we will be maybe 4,850 - 4,900 Delhivery centres, which will be an expansion of maybe 6% or so. Now, if volumes in the network go up 30%-40% in this period, that obviously is going to present a massive increase in utilisation. Our last mile delivery costs, as an example, just the fixed costs that are about 10% of total costs. And so, you will see a pretty significant reduction there. The same math will apply to sortation centres, the same math will apply to gateways and hubs.

You know, even if you assume that there are no linehaul benefits that are generated, the incremental margins could be higher as well. But as I mentioned, I think the Q2 numbers so far are looking great. Let's go ahead. When the Q2 numbers come out it will be much clearer.

Kamlesh Ratadia:

Understood. Great. Thank you so much.

Moderator:

Thank you, Kamlesh. The next question is from Jainam Shah. Jainam, please go ahead.

Jainam Shah:

Yeah. Hi, thanks for the opportunity. Just wanted to confirm one thing, the Ecom Express volume you told about 30 million is for this Q1 or is it for a particular month?

Sahil Barua:

Q1.

Jainam Shah:

So, I just wanted to get your sense on this. Of course, our volume has increased to around 208 million. If we add on our Ecom Express volumes, it is 238 million. And if we see the trend of Ecom Express, they have been doing around 500 plus million volumes in a year. If we just take it on a quarterly basis, they have been doing 120-130 million kind of volumes, which has dropped to around 75% in this quarter. So, just wanted to get your sense out of 208 volume, as you commented in the last call that some of the customers have already started shifting volumes after the formal announcement of the Ecom Express acquisition. Out of 208 volume, what could be the volume that has eventually come from the Ecom Express with the customer shifting? And what has been the organic growth that we have seen through this particular quarter? If I just add back 208 plus 30, it is 238 versus something like 300 million orders that we have done combining Ecom Express plus Delhivery Q1 last year. That has been a drop of around 20%.

So, just confirming these numbers.

Sahil Barua:

So, I think let the Q2 numbers also come out. That's when this will become a lot clearer because the full impact will become visible. As I mentioned, the full impact will take some more time as well to play out because the reality is volumes continue to accrue into the Delhivery network.

As I mentioned, our original assumption was that 30% of the volumes would accrue to Delhivery and we are already beyond that and that continues to grow. So, the reality is the full impact of the Ecom acquisition is a positive surprise so far and we will have more clear information as we go along.

Just a very narrow point on the 500 million. Do bear in mind that Ecom Express and Delhivery don't count shipments the same way. Delhivery counts forward and return consignments and RTO effectively as the same as a forward consignment, whereas Ecom Express's accounting policy was to count them as two separate consignments. And so, the 500 million number was inflated to the extent of the RTO rate.

So, the actual number was significantly lower than that.

Jainam Shah:

Got it. And so, this retention of whatever we are talking about 50% or more, will it be coming to the Delhivery standalone and is it safe to assume that at the end of the probably few quarters the Ecom Express will be having eventually zero revenue as a subsidiary?

Sahil Barua:

Ecom Express as of Q2 itself will have more or less zero revenue as a subsidiary.

Jainam Shah:

Got it, sir. That's it from us. Thank you so much.

Moderator:

Thank you, Jainam. In the interest of time, we will take the last question from Sonal Minhas. Sonal, please go ahead.

Sonal Minhas:

Hi, team. A great set of numbers.

We wanted to understand more from a two-three year out perspective. What are the asset turns we look at or we internally evaluate in our finance team? And what are the margins that we see doing, that this is the asset turn we expect when we compare our balance sheet to our topline our business should be heading to? And tentatively, what margins should we be at?

So what I'm basically trying to get to is that is this fundamentally a 12-14% return on capital business two, three years out as the consolidation has happened as the thesis that Sahil you're talking about that plays out?

Amit Agarwal:

So, Sonal, we right now do asset turns of about 2x net of cash basis. We have close to Rs. 5,000 crore deployed in hard assets, working capital, all of it put together I think closer to Rs. 4,500 crore. And we do about Rs. 9,000 crore as revenue from services annualised. The target would be to get to roughly about 3x of asset turns for us in Express Parcel and PTL business, both of them, which form close to 85% of our revenues.

The service EBITDA margin, as Sahil spoke about, is in the range of 16 to 18% while there is a potential to be higher. But if we were to assume it at 17 odd percent, you just have to deduct the corporate overheads, which are right now at about 8.5%. And we have guided it towards 6-6.5% and that will bring to an adjusted EBITDA of close to about 11 odd percent for us to do an asset turn of about 3x on that 11% odd adjusted EBITDA. So, the aspirational return on capital for Express Parcel and PTL business is well above 24% which we aspire to do.

With the acquisition of Ecom Express, nothing in this changes except the fact that we have front-loaded Capex by roughly about Rs. 300 crores. Now, this Rs. 300 crore rupee Capex is essentially not something we are going to put into active use from day one. Many of the sorting equipment will be warehoused and will be put into use as and when the long-term capacities need to be built in.

So, nothing with regard to Ecom Express acquisition will change the way we have budgeted the economics of the business.

Sonal Minhas:

Thanks for this explanation and just understanding the Ecom integration with the business. We mentioned that we need to up the infrastructure by around 6-8% from here to maybe 2-3 quarters out. And secondly, Ecom Express volumes, we possibly want to capture 30-50%. Is it a fair assumption that whatever flows basically, a net of that should be margin-accretive, should be straightaway be flowing to our EBITDA or we would need to add more overheads and there will be more costs involved once these one-time Rs. 300 crore overheads are taken care of?

Sahil Barua:

No, there will be no overheads required to service this additional volume because it is coming from the same customers. So, there is nothing additional to be done. As I mentioned, the 6% increase also just to be clear is in the distribution centre network. The last mile delivery centres, which out of the 20.3 million odd square feet of real estate that we operate, are a very minor fraction of that. Most of the other infrastructure is absolutely perfectly fine for us to absorb the volumes that increase. In fact, as you can see, we have not expanded the network and have absorbed the volume.

Sonal Minhas:

Yes, yes. I just wanted to imply that. Thanks for explaining that.

Sahil Barua:

But just to be clear, it will be less variable costs of delivery, obviously. What will flow through the margin will be revenue less variable costs.

Sonal Minhas:

Understand that. And I think last question, if I may ask, I think somebody previously was asking, you have seen a volume growth of around 14% in your Express Parcel. Has the volume growth with the Ecom players been higher or it's roughly the same levels as this number?

Sahil Barua:

No, I think we've gained share. And we'll see that we've gained share further.

Sonal Minhas:

All right. Okay. That's it for myself.

Moderator:

That was the last question. Thank you everyone for joining us on the call. Please reach out to the Investor Relations team for any further questions.

Before we end, I'd like to request Mr. Sahil Barua to conclude this discussion with his closing remarks. Over to you, Sahil.

Sahil Barua:

Thank you, Apar. I don't really have any insightful closing remarks. I think, thank you all for joining on Friday evening at 7.30PM. Hopefully, this was useful. And like I said, we've got a good start. Q1FY26 has been great. And hopefully, this continues into Q2 and beyond.