

07 August 2023

India | Equity research | Q1FY24 result update

Delhivery

Logistics/Internet

Capex schedule upsets profitability in Q1 though market share gains continue

In Q1FY24, Delhivery's adjusted EBITDA loss was INR 250mn (vs profit of INR 60mn in Q4FY23) largely due to annual wage increments, investments in capacity expansion (60-70% of yearly capex in Q1) and disruptions pertaining to security and weather. In spite of Q1 being a seasonally weaker quarter, express parcel revenue grew 2.1% QoQ/ 14.3% YoY, broadly in line with our estimates. Given that most peers in the express parcel segment grew at a slower rate, we believe Delhivery continues to gain market share in this space. Management estimated a market share gain of 100-200bps in Q1. Recovery in PTL business continued with tonnage reaching ~75% of peak volumes delivered by Delhivery+SpotOn pre-acquisition. We believe margins should improve Q2 onwards as there are no significant fixed costs in the near term, as indicated by management. Maintain **BUY**, with an upward revision of target price to **INR 500** (from INR 461) as we roll forward by 6 months.

Q1FY24 performance

Delhivery's consolidated revenue for the quarter was INR 19.29bn (I-Sec: INR 19.37bn), up ~4% sequentially and 10.5% YoY. Revenue from express parcel was INR 12.02bn, up ~2.0% QoQ/ 14.3% YoY aided by 1.1% QoQ/ 19.7% YoY increase in shipment volumes. This was accompanied with a marginal improvement in yields sequentially, despite Q1 being a seasonally weaker quarter. PTL revenue was up 5.7% QoQ/ 33.9% YoY to INR 3.4bn aided by 7.8% QoQ/ 43% YoY increase in freight tonnage, 2.7% higher than our estimate. Adjusted EBITDA margin was at a negative 1.3% (down 160 bps QoQ) largely due to annual wage increments taken in Q1FY24 and disruptions related to weather. Yields were flattish in express parcel segment and marginally down in PTL segment on QoQ basis due to mix change and no change in pricing. Management indicated, incremental gross margin in express parcel and PTL businesses for this quarter was 38% lower than the >50% in Q4FY23 due to weather volatility. Management believes that, over the longer term, consolidated gross margin should be in the range of 30-35% as capacity normalises. Company reported a loss ~INR 0.9bn in Q1FY24 (vs loss of ~INR 1.6bn in Q4FY23). The improving trend of PAT was because of lower depreciation in Q1FY24, due to large capex undertaken during this quarter. Management has clarified that depreciation will normalise over the coming quarters.

Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	68,823	71,959	89,184	1,23,251
EBITDA	(1,722)	(3,868)	3,457	10,103
EBITDA Margin (%)	(2.5)	(5.4)	3.9	8.2
Net Profit	(10,110)	(9,136)	(2,359)	3,087
EPS (Rs)	(14.0)	(12.6)	(3.3)	4.3
P/E (x)	(26.7)	(33.4)	(129.2)	98.7
EV/EBITDA (x)	-	-	76.5	26.3
RoCE (%)	(6.2)	(26.1)	(12.4)	0.0
RoE (%)	(17.0)	(10.1)	(2.7)	3.4

Abhisek Banerjee

abhisek.banerjee@icicisecurities.com
+91 22 6807 7574

Amit Dixit

amit.dixit@icicisecurities.com

Pradyut Ganesh

pradyut.ganesh@icicisecurities.com

Market Data

Market Cap (INR)	308bn
Market Cap (USD)	3,729mn
Bloomberg Code	DELHIVER IN
Reuters Code	DELH BO
52-week Range (INR)	658 /291
Free Float (%)	42.0
ADTV-3M (mn) (USD)	8.9

Price Performance (%)	3m	6m	12m
Absolute	15.4	38.7	(32.3)
Relative to Sensex	7.2	9.0	14.2

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

06-06-2023: [Company Update](#)

22-05-2023: [Q4FY23 results review](#)

Management outlook

Management highlighted that the top 5 client concentration has reduced over the last quarter and 'direct to consumer' (D2C) brands are now a large proportion of the business. The recent investment in Vinculum was done to focus on providing value added services to D2C enterprises.

Management believes there is still a large headroom for growth in the PTL business. The total market size is in the range of USD 3bn-5bn and Delhivery has less than 10% market share as of now.

Revenue from supply chain services remained volatile (+9.2% QoQ/ -12.7% YoY) due to security and weather disruptions. However, several marquee contracts were established with brands like Havells, Tata Motors and Mamaearth. Management expects the commercial benefits accruing out of these contracts to reflect in P&L statement Q3FY24 onwards.

Management believes that entry of new players into the B2B space is not a major risk to Delhivery's earnings as of now. With respect to ONDC, they mentioned that Delhivery is not a significant participant yet but will look to increase their presence on the platform going forward. Management sounded confident of becoming net profitable by late FY25 or early FY26.

Valuation

We value Delhivery using time-discounted forward EV/EBITDA multiples. We discount EV calculated at 20x FY26E EV/EBITDA (at 15% discount rate) to arrive at our price target of INR 500. Key risks: i) pricing pressure in the express parcel or PTL business and ii) medium-term growth visibility worsens due to global headwinds.

Exhibit 1: Q1FY24 result review

INR mn	Q1FY24	Q4FY23	Chg. QoQ (%)	Q1FY23	Chg. YoY (%)	I-Sec estimate	Diff.
Total income from operations	19,297	18,596	3.8	17,457	10.5	19,374	(0.4)
Operating expenses	14,380	13,715	4.8	14,526	(1.0)	13,949	3.1
Employee wages	3,532	3,574	(1.2)	3,502	0.9	3,789	(6.8)
Other expenses	1,515	1,173	29.2	1,970	(23.1)	1,162	30.4
Total expenses	19,427	18,462	5.2	19,998	(2.9)	18,900	2.8
EBITDA	(130)	134	na	(2,540)	na	474	na
EBITDA Margin (%)	(0.7)	0.7		(14.6)		2.4	
Adjusted EBITDA	(250)	60	na	(2,170)	Na	280	na
EBITDA Margin (%)	(1.3)	0.3		(12.4)		1.4	
Depreciation	1,673	2,424	(31.0)	1,813	(7.7)	2,424	(31.0)
Other Income	1,013	746	35.8	488	107.6	746	35.8
Finance Cost	195	189	3.2	246	(20.5)	189	3.2
PBT	(986)	(1,734)	na	(4,112)	na	(1,394)	
Tax	(27)	(140)		(58)		(112)	
PAT	(959)	(1,594)	na	(4,053)	na	(1,282)	na
PAT after minority	(895)	(1,587)	na	(3,993)	na	(1,274)	na

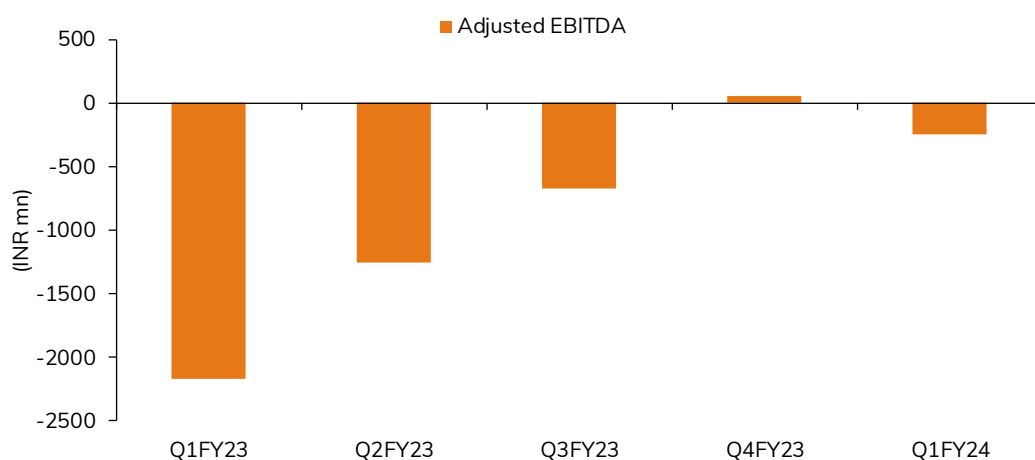
Source: I-Sec research, Company data

Exhibit 2: Q1FY24 segmental result review

INR mn	Q1FY24	Q4FY23	Chg. QoQ (%)	Q1FY23	Chg. YoY (%)
Revenue from express parcel (INR mn)	12020	11770	2.1	10510	14.4
Express Parcel (mn shipments)	182	180	1.1	152	19.7
Revenue/parcel	66	65	1.0	69	(4.5)
PTL Revenue	3470	3280	5.8	2590	34.0
PTL Freight Tonnage (mnte)	0.34	0.32	7.9	0.24	43.5
Revenue per/te (INR/te)	10117	10314	(1.9)	10,837	(6.6)
TL Service Revenue	1310	1102	18.9	1220	7.4
Supply Chain Service Revenue	2060	1887	9.2	2360	(12.7)
Cross Border Services Revenue	420	570	(26.3)	780	(46.2)

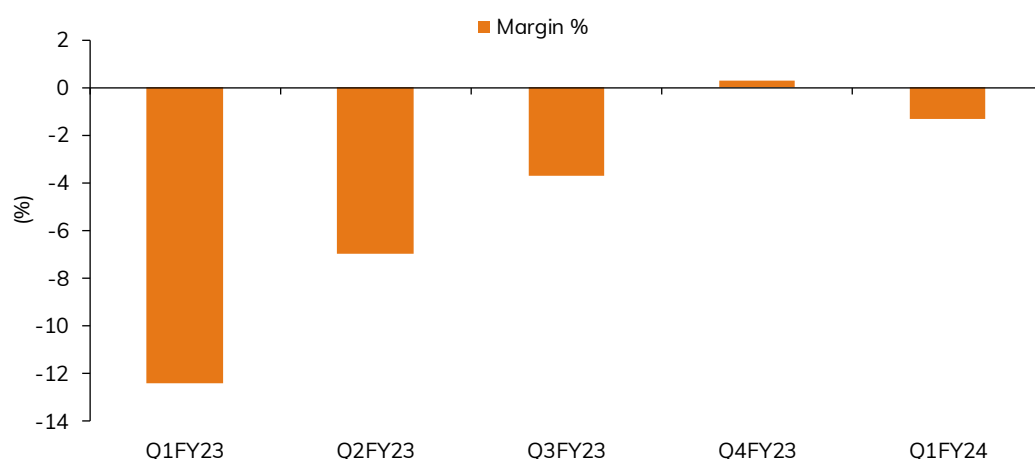
Source: I-Sec research, Company data

Exhibit 3: Adjusted EBITDA (INR mn)



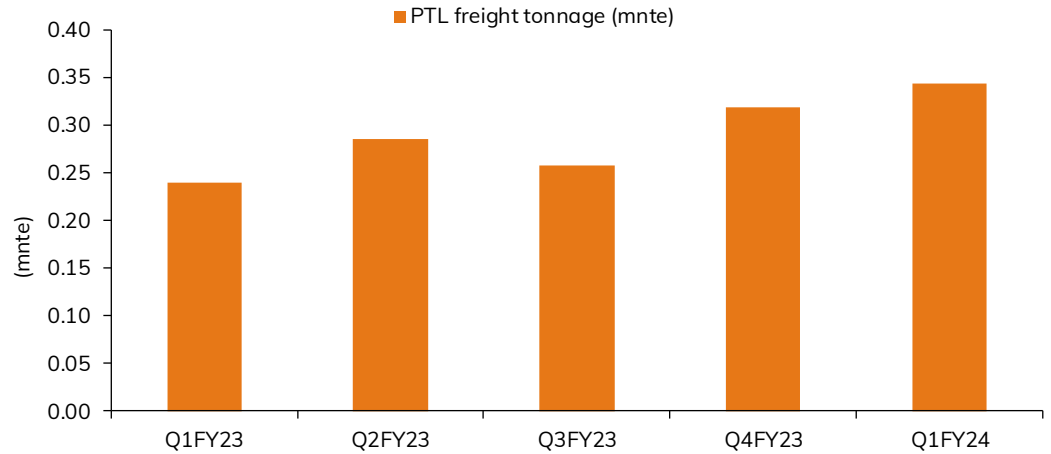
Source: Company data, I-Sec research

Exhibit 4: Adjusted EBITDA margin (%)



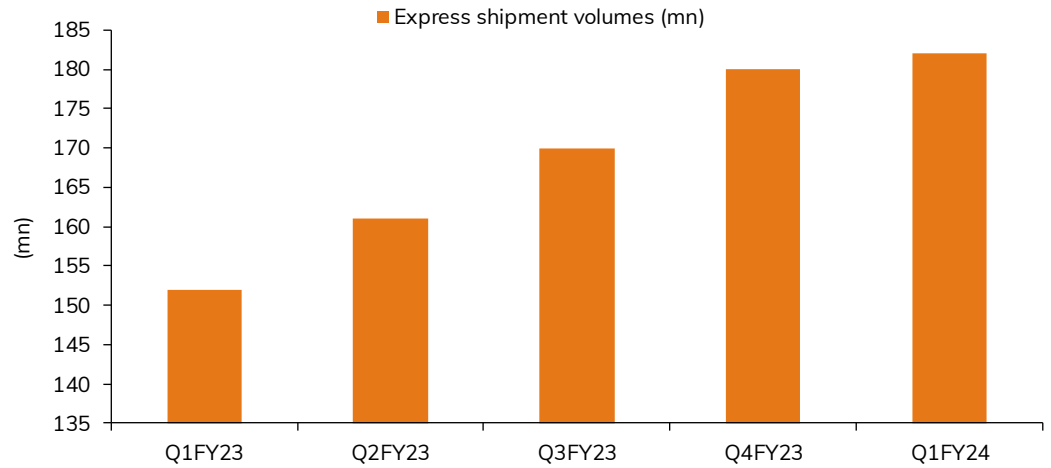
Source: Company data, I-Sec research

Exhibit 5: PTL freight tonnage (mnte)



Source: Company data, I-Sec research

Exhibit 6: Express shipment volumes (mn)



Source: Company data, I-Sec research

Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	-	-	-
Institutional investors	80.5	80.7	80.2
MFs and other	11.1	12.6	14.1
FIs/ Banks	0.0	0.0	0.0
FIIIs	9.1	18.3	0.1
FDI	61.3	49.8	66.0
Others	19.5	19.3	19.8

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	68,823	71,959	89,184	1,23,251
Operating Expenses	19,022	19,010	18,191	22,108
EBITDA	(1,722)	(3,868)	3,457	10,103
EBITDA Margin (%)	(2.5)	(5.4)	3.9	8.2
Depreciation & Amortization	6,107	7,987	8,674	9,341
EBIT	(7,830)	(11,855)	(5,217)	761
Interest expenditure	995	919	1,651	2,067
Other Non-operating Income	1,561	3,049	4,509	4,392
Recurring PBT	(7,264)	(9,725)	(2,359)	3,087
Profit / (Loss) from Associates	(32)	136	-	-
Less: Taxes	2,814	(453)	-	-
PAT	(10,078)	(9,272)	(2,359)	3,087
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	(10,110)	(9,136)	(2,359)	3,087
Net Income (Adjusted)	(10,110)	(9,136)	(2,359)	3,087

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	18,056	24,987	60,329	60,882
of which cash & cash eqv.	1,668	2,290	36,684	31,993
Total Current Liabilities & Provisions	7,160	10,907	12,833	15,539
Net Current Assets	10,897	14,080	47,496	45,343
Investments	29,903	20,907	18,295	18,295
Net Fixed Assets	2,862	6,225	7,797	7,558
ROU Assets	7,177	6,941	6,941	6,941
Capital Work-in-Progress	369	599	900	900
Total Intangible Assets	323	17,359	16,560	16,560
Other assets	7,131	5,490	4,747	4,747
Deferred Tax assets	-	-	-	-
Total Assets	58,661	71,601	1,02,735	1,00,342
Liabilities				
Borrowings	3,424	3,531	3,531	3,531
Deferred Tax Liability	-	629	629	629
provisions	236	383	652	619
other Liabilities	-	-	-	-
Equity Share Capital	16	642	724	724
Reserves & Surplus	47,420	58,932	89,713	87,355
Total Net Worth	47,436	59,574	90,438	88,079
Minority Interest	-	-	-	-
Total Liabilities	58,662	71,601	1,02,735	1,00,342

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	17,961	18,238	18,596	19,297
% growth (YOY)	20	(8.5)	(10.2)	10.5
EBITDA	(1,377)	(733)	134	(130)
Margin %	(8)	(4)	1	(1)
Other Income	873	943	746	1,013
Net Profit	(2,541)	(1,957)	(1,587)	(895)

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	(1,697)	(2,405)	1,753	5,395
Working Capital Changes	(2,479)	(4,954)	2,119	(2,571)
Capital Commitments	(535)	(5,439)	(6,500)	(4,000)
Free Cashflow	-	-	-	-
Other investing cashflow	(18,279)	(21,982)	51	(4,435)
Cashflow from Investing Activities	(18,814)	(27,421)	(6,449)	(8,435)
Issue of Share Capital	19,928	34,916	40,000	-
Interest Cost	(44)	(239)	(919)	(1,651)
Inc (Dec) in Borrowings	90	(2,977)	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	19,420	29,018	39,081	(1,651)
Chg. in Cash & Bank balance	(1,090)	(809)	34,386	(4,691)
Closing cash & balance	(1,090)	(809)	34,386	(4,691)

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	(15.7)	(12.6)	(3.3)	4.3
Adjusted EPS (Diluted)	(14.0)	(12.6)	(3.3)	4.3
Cash EPS	4.8	(1.4)	7.9	15.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	82.3	124.9	121.6	125.9
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	88.7	4.6	23.9	38.2
EBITDA	51.4	124.6	(189.4)	192.2
EPS (INR)	-	-	-	-
Valuation Ratios (x)				
P/E	(26.7)	(33.4)	(129.2)	98.7
P/CEPS	87.4	(294.3)	53.5	27.2
P/BV	5.1	3.4	3.5	3.3
EV / EBITDA	-	-	76.5	26.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	25.1	21.0	24.3	26.1
EBITDA Margins (%)	(2.5)	(5.4)	3.9	8.2
Effective Tax Rate (%)	(38.7)	4.7	-	-
Net Profit Margins (%)	(14.6)	(12.9)	(2.6)	2.5
Net Debt / Equity (x)	(0.6)	(0.3)	(0.6)	(0.5)
Net Debt / EBITDA (x)	16.3	5.1	(14.9)	(4.6)
Total Asset Turnover (x)	1.0	0.7	0.9	1.2
Inventory Turnover Days	48	51	48	45
Receivables Days	12	12	166	110
Payables Days	13	12	11	8
Profitability Ratios				
RoE (%)	(17.0)	(10.1)	(2.7)	3.4
RoCE (%)	(6.2)	(26.1)	(12.4)	0.0
RoIC (%)	(17.0)	(10.1)	(2.7)	3.4

Source Company data, I-Sec research

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For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
