BUY (Maintained)

CMP: **INR 389** Target Price: **INR 500** ▲ 29%

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03 January 2024

India | Equity Research | Company Update

Delhivery

Logistics

CXO 1x1: Amit Agarwal, Chief Financial Officer

We met Mr Amit Agarwal, Chief Financial Officer, Delhivery. Takeaways: 1) Focus remains on economical pricing and customer experience to drive profit share expansion. 2) H1FY24 growth was lower than company's expectations; H2FY24 is off to a better start and it re-iterated ~15% YoY revenue growth guidance in express parcel. 3) Increasing proportion of larger trucks helped Delhivery achieve 'lowest in industry' line haul expense and the differential should expand as they add more such trucks to the fleet. 4) They have gained share in D2C space with multi-pronged initiatives – tech offerings, speed of delivery and integrating fulfilment stack. 5) Integration of SpotOn took longer-than-envisaged, but no issue with the quality of asset acquired. Maintain **BUY** with a TP of INR 500.

On global trends and long-term evolution of Indian market

Mr Agarwal stated that, globally, the logistics market is characterised by disproportionate profit pool capture by the market leader despite significantly more fragmented revenue share in a geography. In the US, the market leader has traditionally maintained 3-4x the profit pool of the next largest player, despite a revenue differential of only ~20-30%. Similarly, in China, the market leader controls >90% of the profit pool with a 30% revenue share.

Delhivery believes the Indian market is likely to evolve similarly over the long term. They plan to become the market leader by providing lowest-cost logistics services with a focus on maintaining high customer satisfaction. Therefore, one should not read too much into temporary revenue share fluctuations.

On express parcel outlook

Mr Agarwal stated that industry growth rate will be in the range of 15-20% for FY25. Delhivery believes that it can maintain steady state service EBITDA margins of 20% in the express parcel segment. The growth during H1FY24 was below expectations (<15%) due to overall negative sentiment towards discretionary expenditure induced by a high inflationary environment and delay of the festive season.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	71,959	89,185	1,23,252	1,58,561
EBITDA	(3,868)	3,458	10,103	16,669
EBITDA Margin (%)	(5.4)	3.9	8.2	10.5
Net Profit	(9,136)	(2,379)	3,086	4,962
EPS (INR)	(12.6)	(3.3)	4.3	6.9
EPS % Chg YoY	(19.9)	(74.0)	(229.7)	60.8
P/E (x)	(30.8)	(118.3)	91.2	56.7
EV/EBITDA (x)	-	76.6	26.3	14.1
RoCE (%)	(26.1)	(12.3)	0.0	4.8
RoE (%)	(15.3)	(2.6)	3.5	5.4

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)	286bn
Market Cap (USD)	3,428mn
Bloomberg Code	DELHIVER IN
Reuters Code	DELH BO
52-week Range (INR)	452 /291
Free Float (%)	50.0
ADTV-3M (mn) (USD)	7.6

Price Performance (%)	3m	6m	12m
Absolute	(5.9)	2.0	17.1
Relative to Sensex	(15.1)	(9.1)	(0.5)

Previous Reports

06-11-2023: Q2FY24 results review
07-08-2023: Q1FY24 results review

Management called out sharp recovery in express parcel volumes from Q3FY24 (as indicated in Q2FY24 investor presentation). Given this is likely to have a larger proportion of heavy packages in line with festive shopping trends, yield/shipment is also expected to be higher.

Delhivery is focussed on providing the customers a satisfactory experience and allowing them to accrue the benefits of Delhivery's large scale of operations. They will not increase pricing at this point of time as they believe that they can absorb cost inflation for a period of time. He added that H2 has always historically been better than H1 and this trend should continue in FY24 as well.

On part truck load (PTL) business

Mr Agarwal stated that though the integration with SpotOn was completed over two quarters ago, management is not overtly concerned that the combined volumes are still not back to pre-merger levels. There is a focus on maintaining the quality of revenues generated in this business. To adhere to these quality standards, Delhivery has renegotiated contracts and churned out unprofitable volumes at the lower end to improve yield. He stressed that continuous sequential improvement in PTL tonnages despite stringent quality criterion is proof of Delhivery's quality of service and strong execution on the ground by the team.

Mr Agarwal conceded that they had initially underestimated the gestation to stability timeline post-acquisition, which underlined their strategy to integrate the business all at once rather than adopting a more gradual approach. This 'big bang' approach dented capacity in the short term and severely impacted growth in this segment over the next 2-3 quarters. He added that there is no issue with the quality of asset acquired.

On future acquisitions

Delhivery will continue looking for acquisitions around e-commerce and supply chain services to fortify their offerings, though they did not call out anything specific in the near future. Management believes the key learnings from the Spoton integration challenges include: 1) adopting a piecemeal approach towards integration of acquisitions and 2) choosing targets which are relatively smaller compared to the organic business, when making an acquisition in an existing business segment. These are learnings which they will keep in mind for future acquisitions,

On capacity addition

Delhivery continues to expand capacity (addition of 1mn square feet) in key locations (Chennai, Hyderabad and Noida) that have gone live in Q3FY24. The introduction of larger trucks (40ft) has helped reduce (20% savings on the next largest truck size) line haul expenses and they will continue to add these trucks to their fleet. At present, 50-60% of line haul capacity is fulfilled by tractor trailers which can be ramped up to 70%-80% over the medium term. Going ahead, Delhivery will focus on increasing penetration in the SME segment. Delhivery believes there is potentially a large opportunity for the PTL business from SME's outside of metro cities.

On business from 'direct to consumer brands'

Mr Agarwal stated that Delhivery already has a large market share in the D2C space and it remains a key focus area going forward as well. Delhivery had launched 'Delhivery One', a digital shipping platform in Aug'23 to meet the needs of MSME and D2C companies. He added that their unceasing multi-pronged focus on improving tech offerings, increasing speed of delivery and integrating fulfilment stack (investment in SaaS start-up Vinculum) have facilitated their position as a player of choice for logistics among D2C brands.

On large e-commerce players opening up captive capacity for 3PL

Mr Agarwal stated that e-commerce players set up capacity to service demand during the peak and trough periods but it still remains largely underutilised as they lack a distributed network which prevents them from scaling up. Therefore, according to Delhivery management, competitive risk emanating from them is low at least on the cost front. He added that ecommerce players adding capacity is a net positive for the industry as they themselves expect volumes to go up.

Valuation

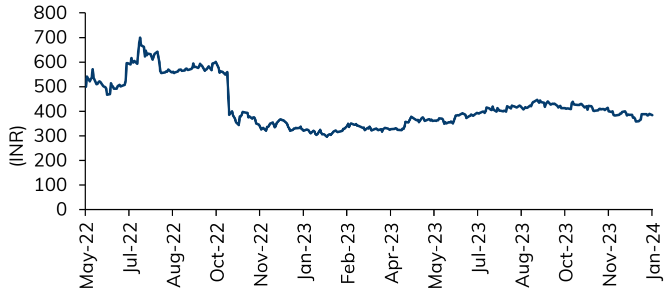
We value Delhivery using time-discounted forward EV/EBITDA multiples. We discount EV, calculated at 20x FY26E EV/EBITDA (at 15% discount rate), to arrive at our price target of INR 500. Key risks: 1) Pricing pressure in the express parcel or PTL business. 2) Global headwinds worsening medium-term growth visibility.

Exhibit 1: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	-	-	-
Institutional investors	80.7	80.2	80.2
MFs and other	12.6	14.1	14.1
FIs/ Banks	0.0	0.0	0.0
FIIs	18.3	0.1	0.1
FDI	49.8	66.0	66.0
Others	19.3	19.8	19.8

Source: Bloomberg, I-Sec research

Exhibit 2: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	71,959	89,185	1,23,252	1,58,561
Operating Expenses	**19,010**	**19,965**	**22,108**	**25,636**
EBITDA	(3,868)	3,458	10,103	16,669
EBITDA Margin (%)	**(5.4)**	**3.9**	**8.2**	**10.5**
Depreciation & Amortization	7,987	8,674	9,341	11,381
EBIT	(11,855)	(5,217)	762	5,288
Interest expenditure	919	1,651	2,067	2,692
Other Non-operating Income	3,049	4,489	4,390	4,047
Recurring PBT	(9,725)	(2,379)	3,086	6,643
Profit / (Loss) from Associates	**136**	**-**	**-**	**-**
Less: Taxes	**(453)**	**-**	**-**	**1,681**
PAT	(9,272)	(2,379)	3,086	4,962
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(9,136)	(2,379)	3,086	4,962
Net Income (Adjusted)	**(9,136)**	**(2,379)**	**3,086**	**4,962**

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	24,987	60,329	60,561	68,181
of which cash & cash eqv.	2,290	36,684	31,680	30,936
Total Current Liabilities & Provisions	10,907	12,833	15,165	21,593
Net Current Assets	**14,080**	**47,496**	**45,395**	**46,588**
Investments	20,907	18,295	18,295	18,295
Net Fixed Assets	6,225	7,797	7,558	9,539
ROU Assets	6,941	6,941	6,941	6,941
Capital Work-in-Progress	599	900	900	900
Total Intangible Assets	17,359	16,560	16,560	16,560
Other assets	5,490	4,747	4,747	4,747
Deferred Tax assests	-	-	-	-
Total Assets	**71,601**	**1,02,735**	**1,00,395**	**1,03,569**
Liabilities				
Borrowings	**3,531**	**3,531**	**3,531**	**3,531**
Deferred Tax Liability	**629**	**629**	**629**	**629**
provisions	383	652	692	780
other Liabilities	-	-	-	-
Equity Share Capital	642	724	724	724
Reserves & Surplus	58,932	89,713	87,335	90,420
Total Net Worth	**59,574**	**90,438**	**88,059**	**91,144**
Minority Interest	-	-	-	-
Total Liabilities	**71,601**	**1,02,734**	**1,00,395**	**1,03,568**

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	18,238	18,596	19,297	19,417
% growth (YOY)	(9%)	(10%)	11%	8%
EBITDA	(733)	134	(130)	(155)
Margin %	(4%)	1%	(0.7%)	(0.8%)
Other Income	943	746	1,013	1,012
Net Profit	(1,957)	(1,587)	(895)	(1,029)

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**(2,405)**	**1,753**	**5,083**	**12,645**
Working Capital Changes	(4,954)	2,119	(2,864)	(1,849)
Capital Commitments	(5,439)	(6,500)	(4,000)	(6,000)
Free Cashflow	**-**	**-**	**-**	**-**
Other investing cashflow	**(21,982)**	**51**	**(4,435)**	**(5,322)**
Cashflow from Investing Activities	(27,421)	(6,449)	(8,435)	(11,322)
Issue of Share Capital	34,916	40,000	-	-
Interest Cost	(239)	(919)	(1,651)	(2,067)
Inc (Dec) in Borrowings	(2,977)	-	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	29,018	39,081	(1,651)	(2,067)
Chg. in Cash & Bank balance	**(809)**	**34,386**	**(5,003)**	**(744)**
Closing cash & balance	(809)	34,386	(5,003)	(744)

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	(12.6)	(3.3)	4.3	6.9
Adjusted EPS (Diluted)	(12.6)	(3.3)	4.3	6.9
Cash EPS	(1.4)	7.8	15.5	20.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	124.9	121.6	125.8	132.7
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	4.6	23.9	38.2	28.6
EBITDA	124.6	(189.4)	192.2	65.0
EPS (INR)	(19.9)	(74.0)	(229.7)	60.8
Valuation Ratios (x)				
P/E	(30.8)	(118.3)	91.2	56.7
P/CEPS	(271.8)	49.6	25.1	19.1
P/BV	3.1	3.2	3.1	2.9
EV / EBITDA	-	76.6	26.3	14.1
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	21.0	26.3	26.1	26.7
EBITDA Margins (%)	(5.4)	3.9	8.2	10.5
Effective Tax Rate (%)	4.7	-	-	25.3
Net Profit Margins (%)	(12.9)	(2.7)	2.5	3.1
Net Debt / Equity (x)	(0.3)	(0.6)	(0.5)	(0.5)
Net Debt / EBITDA (x)	5.1	(14.9)	(4.6)	(2.7)
Total Asset Turnover (x)	(1,43,917.1)	4,95,470.1	3,42,365.8	4,40,448.2
Inventory Turnover Days	51	48	45	42
Receivables Days	12	166	109	80
Payables Days	12	11	8	6
Profitability Ratios				
RoE (%)	(15.3)	(2.6)	3.5	5.4
RoCE (%)	(26.1)	(12.3)	0.0	4.8
RoIC (%)	(14.7)	(0.9)	5.6	7.5

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122