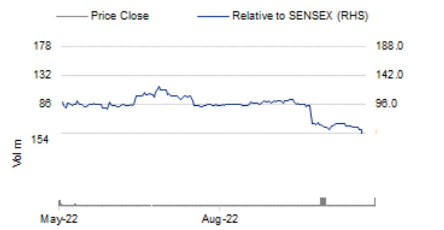
India

REDUCE *(Initiating coverage)*

Consensus ratings*:	Buy 8	Hold 3	Sell 1

Current price:	Rs345
Target price:	Rs263
Previous target:	NA
Up/downside:	-23.8%
EIP Research / Consensus:	-47.5%
Reuters:	
Bloomberg:	DELHIVER IN
Market cap:	US$3,449m
	Rs250,448m
Average daily turnover:	US$0.0m
	Rs0.0m
Current shares o/s:	0.0m
Free float:	100.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.7)	(39.5)	0.0
Relative (%)	(13.4)	(41.9)	0.0

Major shareholders	% held
SVF Doorbell (Cayman) Ltd	18.5
Nexus Ventures Ltd.	7.9
SBI MF	5.2

Delhivery

May face a long winding path to profitability

- India e-com biz: Long-term growth story but it requires deep pockets.
- Dwindling funds for B2C express companies and their clients and the low operating leverage of global logistics companies are key areas of concern.
- Tepid margin growth and high cash burn are problem areas for Delhivery. We initiate coverage on it with a REDUCE rating and a DCF-based TP of Rs263.

India e-com biz: Long-term growth story but it requires deep pockets

Flipkart and Amazon Seller Services or ASS (both loss-making over FY15-21) have a combined market share of 65-68% in the Indian e-commerce space (as at end-FY21). The nature of the industry implies a lack of pricing power for companies. Thus, to be profitable, a company needs (a) scale to reduce cost/unit, and (b) pricing discipline from major players. Given the focus on growth and deep pockets of the owners of ASS and Flipkart, we expect industry pricing to be weak and losses to continue in the medium term.

Dwindling funds for B2C express cos & their clients are key concerns

(1) Focus on growth and deep pockets of the owners of ASS and Flipkart implies that pricing in e-commerce (B2C express clients) will be weak and losses to continue in the medium term. Volume of 3PL B2C express players may be negatively impacted if the funds dry up for e-commerce (ex-ASS and Flipkart). (2) If fund infusion for B2C express players dries up, we expect them to focus on profit. However, this may lead to market share loss to players with access to funds. (3) For express firms in China, there was no discernible expansion in EBITDA margin (CY15-21), despite an average 300% revenue growth.

Delhivery: Concerns over tepid margin growth and high cash burn

Dip in per unit cost is misleading: Delhivery reports its volume in the number of parcels (express) delivered. Its blended tariff/cost (EBT level) per unit volume dipped 14% /17% (FY20-22), respectively, likely due to a reduction in lead distance. Despite a 142% sales growth (FY20-22), EBT margin rose by just 428bp and EBT loss increased by 1.8x. Delhivery leases trucks, manpower and land. Cash requirement was at Rs79bn (FY20-1HFY23), despite the lease business model, of which EBITDA loss was at 20%. We expect further raising of funds by the company to the tune of ~Rs40bn for two years post FY25F.

Initiate coverage with REDUCE rating and target price of Rs263

We had highlighted our concerns on Delhivery's profitability in our IPO note. Delhivery has shed 51% from its peak. We expect a 21% revenue CAGR (FY22-25F) and a 304bp improvement in adj. EBITDA margin. We have valued it using the DCF method. We factor in a slower rise in operating expenses (vs. sales) due to operating leverage. Post FY27F, we factor in more rational pricing and a 7% EBITDA margin in FY30F. Post FY29F, we consider EV/sales exit multiple of 1.5x FY30F as (a) we expect Indian e-commerce penetration to rise to 11% by FY30F and grow at a more tepid ~15% growth p.a. post FY30F, and (b) Chinese express firms trade at 0.9x EV/ sales. Upside risks: (a) Exit / slowdown/ change in the strategy of ASS/ Flipkart, which may lead to rational pricing and (b) exit of competitors (3PL B2C express companies).

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	36,363	67,063	78,127	99,085	119,784
Operating EBITDA (Rsm)	(3,122)	(4,232)	(9,013)	(4,675)	(3,915)
Net Profit (Rsm)	(4,157)	(10,116)	(12,219)	(8,375)	(9,715)
Core EPS (Rs)	(7.3)	(17.5)	(17.6)	(11.5)	(13.4)
Core EPS Growth	20.5%	140.5%	0.8%	(34.5%)	16.0%
FD Core P/E (x)	(42.73)	(19.73)	(19.29)	(29.86)	(25.74)
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	(59.70)	(49.21)	(25.60)	(52.52)	(68.31)
P/FCFE (x)	(255.17)	(4.88)	(9.42)	143.13	(13.43)
Net Gearing	29.6%	14.6%	(5.6%)	(5.7%)	25.0%
P/BV (x)	6.27	3.71	2.86	3.17	3.61
ROE	(12.6%)	(23.1%)	(16.4%)	(10.1%)	(13.1%)
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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May face a long winding path to profitability

India e-commerce: Strong growth prospects but requires deep pockets

Indian e-commerce market was at US$30bn (CY19) vs. the retail market sales of US$850bn. India's e-commerce industry grew at a 36% CAGR over CY14-19. India's online retail penetration in CY19 was just 3.4%, while in the UK, US, China and South Korea, it was more than 15%.

In India, 100% foreign direct investment (FDI) in the e-commerce marketplace-based model is allowed, but no FDI is allowed in the inventory-based e-commerce model. Further, e-commerce marketplace-based companies are prohibited from ownership/control over inventory.

India's e-commerce market is dominated by Flipkart and Amazon Seller Services (ASS) with an estimated combined market share of 65-68% in FY21. Gross merchandise value (GMV) during FY21 was US$11.5bn/ US$12.5bn/ US$2bn for ASS/ Flipkart (ex-Myntra) / Myntra (subsidiary of Flipkart), respectively.

Both Flipkart and ASS were loss-making companies over FY15-21. ASS and Flipkart have strong parentage (Amazon/ Walmart) and we believe that losses are unlikely to hinder their growth over the next five years.

Meesho's sharp revenue growth (Rs8bn in FY21; up 158% yoy) has increased competition in the sector. It has ~12% market share with a GMV of US$5bn with a strong presence in Tier-2/3 cities. **As 3PL players handle ~45% of e-commerce volume, Meesho accounts for ~25% of the 3PL industry's volume.**

E-commerce provides a marketplace for customers to purchase products. The nature of the industry implies a lack of pricing power for companies as customers are likely to choose products from companies which provide products at the cheapest price.

Thus, to be profitable, a company needs (a) scale to reduce cost/ unit, and (b) pricing discipline from major players. Given the focus on growth and deep pockets of the owners of ASS and Flipkart, we expect industry pricing to be weak and losses to continue in the medium term.

Figure 1: Online retail penetration and e-retail sales CAGR in various countries

(%)	2019 Online retail penetration	E- Commerce Sales CAGR CY14-19 (%)
Thailand	2.0	12
Malaysia	3.0	23
India	**3.4**	**36**
Japan	9.5	8
Australia	11.4	9
France	11.6	10
USA	16.1	10
UK	20.4	10
South Korea	24.2	12
China	26.2	14

SOURCE: INCRED RESEARCH, BAIN: HOW INDIA SHOPS ONLINE

Figure 2: Financials of Flipkart and Amazon Seller Services

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Flipkart							
Revenue	90.3	128.2	152.6	214.4	305.7	341.7	429.4
yoy growth %		42	19	40	43	12	26
PAT	-8.3	-5.4	-2.4	-20.6	-38.4	-31.5	-24.4
Margin %	-9	-4	-2	-10	-13	-9	-6
Amazon Seller services							
Revenue	9.8	22.2	31.3	49.3	75.9	108.5	162.0
yoy growth %		127	41	58	54	43	49
PAT	-17.2	-36.8	-48.3	-62.9	-56.9	-58.5	-47.5
Margin %	-176	-166	-154	-128	-75	-54	-29

SOURCE: INCRED RESEARCH, ACE EQUITY: A CORPORATE DATABASE OF LISTED AND UNLISTED COMPANIES

Growth of e-commerce mirrored in B2C express; captive players had a 59% market share in FY20 ›

India's road transport industry comprises full truckload/part truckload/ B2C express (88%/10%/1.9% of road transport sales, respectively, in FY20). B2C express (US$2.3bn, 1.5bn shipments, average revenue of Rs112/shipment in FY20) grew at 31% p.a. over FY18-20.

Over FY18-20, while B2C express grew rapidly, third-party logistics (3PL) players grew more sedately (~17% p.a. over FY18-20), as captive logistics players gained market share (50% of shipments in FY18 to 59% in FY20).

Figure 3: Details of India's road transport industry

	FY18	FY19	FY20
Road transport (USD bn)	103	113	124
Growth p.a. %		9	10
Full truckload - FTL (USD bn)	90	99	109
Growth p.a. %		10	10
FTL as % Road	87	88	88
Part truckload - PTL (USD bn)	12	12	13
Growth p.a. %		-	8
PTL as % Road	12	11	10
Express parcel (USD bn) - B2C	1.3	1.8	2.3
Growth p.a. %		31	31
Express as % Road	1.3	1.6	1.9
E-com shipments (bn)	0.9	1.2	1.5
Growth p.a. %		33	25
Captive shipments (bn)	0.5	0.7	0.9
Growth p.a. %		47	34
Captive as % of total E-com shipments	50	55	59
3PL shipments - Express (bn)	0.5	0.5	0.6
Growth p.a. %		20	14

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The captive logistics arms of Amazon (Amazon Transportation Services or ATS) and Flipkart (InstaKart) had a market share of 47% in B2C express (FY20) and 80% in captive B2C express logistics (FY20). Sales of ATS/ Instakart grew 37%/ 32% yoy, respectively, in FY21.

Figure 4: ATS and InstaKart market share in B2C express logistics

(Rs bn)	FY18	FY19	FY20	FY21
Amazon TS - Revenue	16	21	30	41
yoy growth %	59	31	43	37
Instakart - revenue	25	44	50	66
yoy growth %	240	78	13	32
Instakart + ATS revenue	41	65	79	106
B2C Express	98	128	168	na
Market share in B2C express %	42	51	47	na
Captive B2C Express	49	70	99	na
Market share in Captive B2C express %	83	92	80	na

SOURCE: INCRED RESEARCH, COMPANY REPORTS, ACE EQUITY

Figure 5: Delhivery's revenue per customer

	FY20	FY21	FY22	1HFY23
Delhivery revenue (Rs bn)	28	36	67	35
Average number of customers	6,412	12,349	20,177	28,691
Revenue per customer (Rs m)	4.3	2.9	3.3	2.5
% yoy growth		(32)	13	(26)
Revenue from top 5 customers (Rs bn)	12	16	na	na
% revenue from top 5 customers	42	43	na	na
Revenue per customer - ex-top 5 (Rs m)	2.5	1.7	na	na
% yoy growth		(33)	na	na

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Despite a 155% revenue growth (FY20 to 1HFY23) for Delhivery, its revenue per customer declined by 43%. Going ahead, incremental customers are likely to be smaller. Sales from large clients could be at risk, in case they adopt/increase captive logistics business.

B2C express players prioritize sales growth over profit because of easy availability of funds

Most large B2C express players have been loss-making over FY16-21, despite strong industry sales growth. We believe that strong parentage, Amazon/ Walmart in case of ATSL/ InstaKart, respectively, and easy availability of funds (for other B2C express players) led to companies prioritizing growth over profits.

There have been equity transactions of a total US$2.7bn in India's express companies over Sep 2014 till now. Out of this, US$2.5bn is in B2C express companies and US$0.2bn in SpotOn (a B2B express company). In Aug 2018, Walmart acquired 77% equity stake in Flipkart (e-commerce player) for US$16bn.

Figure 6: PAT margin of B2C express players

(%)	FY16	FY17	FY18	FY19	FY20	FY21
Adj PAT margin %	**(69)**	**(77)**	**(31)**	**(8)**	**(18)**	**(14)**
InstaKart	(267)	(209)	(20)	(7)	(31)	(29)
Amazon TS	0	(2)	(2)	(1)	(2)	(2)
Delhivery	(64)	(86)	(68)	(18)	(10)	(10)
EcomExpress	(28)	(15)	(93)	(13)	(25)	4

SOURCE: INCRED RESEARCH, COMPANY REPORTS, ACE EQUITY

Figure 7: Key equity transactions in Indian express companies over Sep 2014 to Oct 2022

Company	Date	Lead Investor	Fund infusion (USD m)
Ecom Express		**Total**	**525**
	Oct-22	Partners, Warburg Pincus, CDC	39
	Mar-21	CDC Group	20
	Dec-20	Partners Group	250
	Dec-19	CDC Group	36
	Sep-17	Warburg Pincus	30
	Jun-15	Warburg Pincus	133
	Sep-14	Peepul Capital	17
Delhivery		**Total**	**1,452**
	May-22	IPO	513
	Sep-21	Suedasien	75
	May-21	Fidelity	274
	Mar-19	SVF Doorbell - SoftBank	395
	May-17	Deli CMF	24
	Mar-17	CA Swift	100
	May-15	Rights issue	70
SpotOn	**Aug-21**	**Delhivery**	**200**
Xpressbees		**Total**	**570**
	Feb-22	TPG Growth, Chrys capital	300
	Nov-20	Gaja Capital, Investcorp, Norwest	120
	Jan-20	Alibaba Group	10
	Feb-19	InnoVen Capital	5
	Jan-18	Alibaba Group	35
	Jan-18	Alibaba Group	100
		Grand Total	**2,746**
Flipkart	**Aug-18**	**Walmart**	**16,000**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key concerns – dwindling funds for e-commerce (clients) and for B2C express

We believe that as long as B2C express companies have easy access to funds, industry tariffs are likely to remain weak.

Market share gain by e-commerce players with captive logistics: The focus on growth and deep pockets of the owners of ASS and Flipkart implies that industry pricing will be weak, competition will be high, and losses will continue in the medium term. Volume of B2C express players could be negatively impacted if (a) incremental funds dry up for the industry (ex-ASS and Flipkart), (b) small players are acquired by large ones with captive logistics, and (c) large players grow faster than small players.

A trigger for both e-commerce and B2C express players could be the exit / slowdown/ change of strategy of ASS/ Flipkart, which could lead to more rational pricing.

If fund infusion for B2C express sector dries up, we expect them to focus on profit. However, this could lead to a reduction in volume and result in market share gain for B2C express players who have a strong balance sheet and still have access to fresh funds.

InCred Equities

Global peers reported flat margins over CY15-21, despite an average 300% rise in revenue

Delhivery has been loss-making over FY15-22. Over this period, sales have grown 2,910%. While margins have improved, the company was still loss-making in FY22. **We believe there is low operating leverage in the business and the key trigger for profitability is the rise in tariffs.**

Figure 8: Key financials of Delhivery over FY15-22

(Rs m)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenue	2,228	4,957	7,437	10,231	16,539	27,748	36,363	67,063
EBITDA	(702)	(3,026)	(5,834)	(6,829)	(2,249)	(3,020)	(3,122)	(4,232)
EBITDA margin %	(32)	(61)	(78)	(67)	(14)	(11)	(9)	(6)
Adjusted PAT	(711)	(3,185)	(6,378)	(6,921)	(3,026)	(2,689)	(3,652)	(7,119)
Adjusted PAT margin %	(32)	(64)	(86)	(68)	(18)	(10)	(10)	(11)

SOURCE: INCRED RESEARCH, DELHIVERY DRHP, ACE EQUITY

For express companies in China and USA, there was no discernible expansion in EBITDA/PAT margin over CY15-21, despite an average revenue growth of 300%. This implies low operating leverage.

Figure 9: Key financials of express logistics companies in China and USA

	Revenue	Revenue	EBITDA margin			PAT margin		
	CY21 (USD bn)	Growth % (CY15-21)	CY15	CY21	Average	CY15	CY21	Average
ZTO Express	4.8	400	27.7	25.8	28.8	21.9	15.6	21.5
SF Holdings	32.5	332	6.4	8.7	9.2	2.3	1.3	4.6
YTO Express	7.1	274	9.4	10.3	10.1	5.9	4.7	6.2
STO Express	4.0	228	14.1	4.7	11.8	9.9	-3.6	7.0
Yunda	6.6	727	18.4	10.2	17.9	10.6	3.5	11.1
FedEx *	84.0	77	15.0	13.9	13.9	2.2	6.2	3.8
UPS	97.3	67	16.9	17.3	15.5	8.3	13.2	7.0
Average		**301**	**15.4**	**13.0**	**15.3**	**8.7**	**5.9**	**8.7**

* year ending is in May

SOURCE: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

InCred Equities

Delhivery's adj. EBITDA margin (before share-based payments and bonus) rose by 1,007 bp (FY20-22), but EBT margin rose by just 428 bp

FY20-22 (sales up 142%): Adj. EBITDA margin (before share-based payments & bonus) rose by 1,007bp, but after these items, the rise was just 457bp. This was partly due to the acquisition of SpotOn on 24 Aug 2021 (10.8% EBITDA margin in 9MFY22; sales/EBITDA of Rs7.6bn/Rs0.8bn, respectively). **We estimate that ex-SpotOn, FY22 EBITDA margin (post share based & bonus payments) would have been -8% (vs. reported -6.3%) – implying a 290bp margin growth.**

EBT margin rose by 428bp over the period. It is prudent to focus on EBT margin due to (a) change in business due to the acquisition of SpotOn (EBITDA positive entity), and (b) recurring bonus payments.

1HFY23: Adj. EBITDA margin (before/after share-based payments and bonus) and EBT margin dipped by 1,060bp/ 754bp/ 939bp vs. FY22 due to the delay in integration of Spoton and loss of key customers. We are surprised by the sticky cost, as Delhivery has a rental model. **Note: This was despite a dip in share-based payments and bonus from 7.3% of sales in FY22 to 4.2% of sales in 1HFY23.**

Figure 10: Growth of Delhivery's revenue and cost per unit volume

(Rs m)	FY19	FY20	FY21	FY22	Growth FY22 vs. FY20	1HFY23
Sales	16,539	27,748	36,363	67,063		35,418
% of Sales from Express parcel	83	70	70	62		61
% of Sales from Part truckload & truckload business	8	21	16	24		22
growth %		68	31	84	142	26
blended tariff change %		(10)	4	(18)	(14)	(5)
Tariff change - Express %		(7)	3	(18)	(16)	(6)
Tariff change - PTL %		(18)	8	(17)	(10)	(4)
Volume change %		87	26	125	182	33
Total cost (EBITDA level)	18,788	30,768	39,486	71,295		40,326
growth %		64	28	81	132	24
yoy growth per unit volume %		(13)	2	(20)	(18)	(6)
adj. EBITDA post share-based payment and one-time bonus	(2,249)	(3,020)	(3,122)	(4,232)		(4,907)
margin %	(13.6)	(10.9)	(8.6)	(6.3)		(13.9)
adj. EBITDA before share-based payment and one-time bonus	(1,869)	(2,532)	(2,399)	636		(3,417)
margin %	(11.3)	(9.1)	(6.6)	0.9		(9.6)
EBT before extraordinary items	(3,429)	(4,769)	(5,436)	(8,653)		(7,897)
margin %	(20.7)	(17.2)	(14.9)	(12.9)		(22.3)
Total cost (EBT level)	19,968	32,517	41,799	75,716		43,315
growth %		63	29	81	133	29
yoy growth per unit volume %		(13)	2	(19)	(17)	(3)

SOURCE: INCRED RESEARCH, COMPANY REPORTS. NOTE: ADJUSTED EBITDA IS CALCULATED AS EBITDA LESS LEASE RENTAL. WE CALCULATE BLENDED TARIFF GROWTH BASED ON TARIFF GROWTH IN EXPRESS PARCEL AND PTL SEGMENTS.

Impact of higher contribution of PTL & TL: Over FY19-20, sales rose by 68%, contribution from PTL & TL increased from 8% to 21% and EBT margin rose by 355bp. Over FY20-22, sales rose by 142%, contribution from PTL & TL was similar and EBT margin rose by 428bp. We believe the rise in EBT margin over FY19-20 (with same contribution from PTL & TL) would be 210bp (due to 68% sales growth) and we attribute the 145bp rise to higher contribution from PTL & TL.

Note: VRL Logistics, a PTL company, has EBITDA margin of 15-20% in the goods transport segment (FY20-22F). SpotOn posted10.8% EBITDA margin in 9MFY22.

Decline in per unit cost is misleading: Over FY20-22, blended volume rose by 182%. Delhivery reports volume in number of parcels (express) and in tonne (PTL). Its blended tariff / cost per unit volume dipped 14% /17%, respectively. **Over FY20-22, freight and handling cost/ volume fell by 16%, despite a 45% rise in diesel price. A plausible explanation is a reduction in lead distance. The decline in tariff/ cost per unit volume in tonne km/ parcel km is likely to be more benign.**

Most cost items rose broadly in line with sales over FY20-22

Freight handling (63.1-64.2% of sales in FY20-22): This was primarily haulage charges (variable cost). Freight handling/ volume (tonne or number of parcels) declined by 16%, similar to the 14% fall in tariff. **The dip in cost /volume in tonne km or parcel km is likely to be more benign.**

Figure 11: Growth of Delhivery's freight handling cost per unit volume

(Rs m)	FY19	FY20	FY21	FY22	Growth FY22 vs. FY20	1HFY23
Freight, handling (ex-contract labour)	9,684	17,810	23,053	42,291		24,145
As % of sales	58.6	64.2	63.4	63.1		68.2
yoy growth per unit volume %		(2)	3	(18)	(16)	(4)
Line haul expenses	4,688	10,926	13,277	23,977		12,930
yoy growth per unit volume %		24	(3)	(20)	(22)	(1)
Vehicle rental expenses	2,692	4,225	6,801	13,546		7,420
yoy growth per unit volume %		(16)	28	(11)	14	6
Others	2,304	2,659	2,975	4,768		3,795
yoy growth per unit volume %		(38)	(11)	(29)	(36)	(24)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Employee cost including contract labour (29.8-32.2% of sales in FY20-22): The employee cost (incl. contract labour)/ volume (tonne or number of parcels) declined by 18% over FY20-22, vs. the 14% fall in tariff. The dip in cost /volume in tonne km or parcel km is likely to be more benign.

The rise in salary/ employee (8% over FY20-22) was more than offset by the 32% rise in productivity (volume/employee). We believe the productivity rise is exaggerated and is due to a reduction in lead distance.

Share-based payment and bonus (FY22) was at Rs4.9bn. Excluding it from our calculation, salary (incl. contact labour)/ employee dipped 13% (FY20-22) – this could reverse going ahead. We believe the mix of personnel (permanent vs. contract labour) was similar over FY20-22 as contract labour expenses / salary cost (excluding one-offs) was the same in FY20 and FY22 (47.6%).

Note: Remuneration to key management personnel (KMP) in FY22 was Rs2.3bn vs. Rs0.4bn (FY21). Out of the Rs4.9bn share-based and bonus payment, if Rs1.9bn is considered as one-off, then average salary (incl. contract labour) excluding one-offs / employee in FY22 would be Rs21.3k/month, 5% higher than that in FY20 (Rs20.3k/ month).

Figure 12: Growth of Delhivery's employee cost per unit volume

(Rs bn)	FY19	FY20	FY21	FY22	Growth (FY20-22) %	1HFY23
Salary cost (including contract labour)	6.3	8.9	10.8	20.6	131	11.8
% of sales	37.9	32.2	29.8	30.8		33.2
yoy growth per unit volume %		(24)	(3)	(15)	(18)	(7)
Average num of employees (000)		34.6	46.8	73.9		94.9
yoy growth %			35.0	58.1	113	43.1
yoy growth in volume per employee %			(7.0)	42.1	32	(7.4)
Average salary/ month (Rs 000)		21.5	19.3	23.3	8	20.7
one-time bonus (a)	-	-	-	1.8		-
share-based payment (b)	0.4	0.5	0.7	3.1		1.5
Salary cost (including contact labour) ex (a) and (b)	5.9	8.4	10.1	15.8	87	10.3
% of sales		30.4	27.8	23.5		29.0
Average salary ex (a) and (b) / month (Rs 000)		20.3	18.0	17.8	(13)	18.0
Salary cost (ex-contract labour)	3.4	4.9	6.1	13.1	168	7.0
% of sales		17.7	16.8	19.6		19.8
Salary cost (ex-contract labour) ex (a) and (b)	3.1	4.4	5.4	8.3	87	5.5
% of sales		15.9	14.8	12.3		15.6
Contract labour expense	2.8	4.0	4.7	7.5	86	4.7
% of sales	47.9	14.5	13.0	11.2		13.4
Remuneration to key management personnel	0.3	0.3	0.4	2.3		na
Salary cost (incl contract labour) ex-KMP	6.0	8.6	10.4	18.3	182	na
% of sales		31.2	28.7	27.3		na

SOURCE: INCRED RESEARCH, COMPANY REPORTS,

Other expenses (8.5-9.8% of sales: FY20-22): There was a 26% decline (FY20-22) in other expenses/ volume (tonne or parcel), more than the 14% tariff dip. The decline in cost /volume in tonne km or parcel km is likely to be more benign.

Figure 13: Growth of Delhivery's other expenses per unit volume

(Rs m)	FY19	FY20	FY21	FY22	Growth FY22 vs. FY20	1HFY23
Other expenses less gain on modification of lease contracts	1,956	2,722	3,477	5,679		3,101
As % of sales	11.8	9.8	9.6	8.5		8.8
yoy growth per unit volume %		(26)	2	(27)	(26)	(9)
Allowances for doubtful debts	275	448	895	1,155		
yoy growth per unit volume %		(13)	59	(43)	(9)	
Software and technology expense	412	613	783	1,420		
yoy growth per unit volume %		(20)	2	(19)	(18)	
Other Income	402	2,081	1,784	1,351		1,361
As % of sales	2.4	7.5	4.9	2.0		3.8
Interest ex lease payments	101	114	203	253		485
Depreciation ex-lease payments	1,080	1,634	2,111	4,168		2,504
As % of sales	6.5	5.9	5.8	6.2		7.1

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Lease payment (4-5.8% of sales in FY20-22): There was a 27% fall in lease expenses/ volume (tonne or parcel) over FY20-22, higher than the 14% decline in tariff. The dip in cost /volume in tonne km or parcel km is likely to be more benign. We observe that the 8% rise in lease rent/ area has partly offset the 47% rise in volume/ area.

Figure 14: Growth of Delhivery's lease payment per unit volume

(Rs m)	FY19	FY20	FY21	FY22	Growth FY22 vs. FY20	1HFY23
Lease payments	878	1,299	2,119	2,682		1,310
As % of sales	5.3	4.7	5.8	4.0		3.7
yoy growth per unit volume %		(21)	30	(44)	(27)	(27)
Leased area (average)	6	8	11	15		
yoy growth %		33	40	37		
yoy growth in volume handled per msf %		41	(10)	63	47	
Lease rent / sqf	147	164	192	177		
yoy growth %		12	17	(8)	8	

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Salient features of Delhivery's business

During 1HFY23, express logistics/ part truckload and full truckload was 61%/ 22% of its sales, respectively. The peak season for express logistics is the third quarter of the financial year, which comprised ~30% of sales in FY20-22. Revenue per express parcel was at Rs72 while revenue per tonne of PTL cargo was at Rs8,524 in FY22.

Top-5 customers accounted for 40-43% of revenue (FY20-9MFY22). Delhivery has 28,100 customers (Sep 2022), up 477% from Mar 2019. Delhivery has 95,128 employees as at end-Sep 2022, up 230% from Mar 2019. Leased land area was 18.5m square feet (msf) as at end-Sep 2022, up 210% from Mar 2019.

Figure 15: Percentage revenue contribution from various verticals

	FY19	FY20	FY21	FY22	1HFY23
Total revenue (Rs bn)	17	28	36	67	35
yoy growth %		68	31	84	26
Express parcel shipments (m)	148	225	289	582	313
yoy growth %		51	29	101	32
Part truckload (kt)	121	243	374	1,579	525
yoy growth %		100	54	322	(23)
% of total revenue					
Express parcel	83	70	70	62	61
Part truckload (PTL)	8	8	11	20	16
Truckload (TL)	-	13	6	4	6
Supply chain	8	8	11	8	12
Cross-border	1	1	3	5	5

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Key metrics of Delhivery

	FY19	FY20	FY21	FY22	1HFY23
Percentage revenue from top 5 customers (%)	49	42	43	-	
Number of customers (Yr-end)	4,867	7,957	16,741	23,613	28,100
yoy growth %		63	110	41	na
Number of employees including contract labour (Yr-end)	28,830	40,416	53,086	94,733	95,128
yoy growth %		40	31	78	na
Land area (mn square feet)	6.0	9.9	12.2	18.1	18.5
yoy growth %		65	24	48	na
PIN code reach (Yr-end)	13,485	15,875	16,677	18,074	18,454
Number of gateways	73	83	88	123	96
Automation sort capacity (m parcels/ day)	1.6	2.3	2.6	-	na
Number of delivery points	2,258	2,973	3,382	-	na

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Delhivery has ~22% market share in India's e-commerce industry (by volume) in 2QFY23. In the PTL segment, Delhivery (including SpotOn) has ~1% market share and ~8% market share in the organized PTL market in FY21.

Figure 17: Key management personnel of Delhivery

Name	Designation
Deepak Kapoor	Chairman & Non-Executive Independent Director
Sahil Barua	MD & CEO
Sandeep Kumar Barasia	ED & Chief Business Officer
Kapil Bharati	ED & Chief Technology Officer
Amit Agarwal	Chief Financial Officer
Pooja Gupta	Chief People Officer
Sunil Kumar Bansal	VP - Corporate Affairs, Company Secretary and Compliance Officer
Ajith Pai Mangalore	Chief Operating Officer
Suraj Saharan	Head of new ventures
Abhik Mitra	MD & CEO of SpotOn Logistics

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Primarily leases fixed assets – trucks, contract manpower and land.

- Manpower is hired from agencies for ~12 months. If agencies default on their obligations to contract employees, Delhivery may be liable.
- Most trucks are hired for 22 months. Delhivery is the principal employer for manpower hired to drive trucks. Lease rentals are linked to diesel price.
- **Leased properties:** Most leases for delivery centres/ warehouses are for a year and for mega gateways for one-to-nine years. There is (a) a lock-in of up to three years, and (b) ~7% p.a. rent increase.

Fixed asset/ sales stood at 24% in Sep 2022. Working capital intensity is high (32% in Sep 2022) as Delhivery pays its network partners, fleet partners and manpower agencies within 60 days, while they offer customers payment terms of up to 90 days. Overall assets (including goodwill) / sales ratio was at 77% in Sep 2022.

Figure 18: Key financial ratios of Delhivery

	FY20	FY21	FY22	Sep 22
NWC/ Sales %	34	38	20	32
NFA including RoU assets / Sales %	22	26	21	24
NFA ex-RoU assets / Sales %	8	8	10	14
Assets/ sales %	60	67	54	77
Assets ex RoU assets/ Sales %	46	50	43	67
Net debt (including lease lia)/ equity	(0.3)	(0.1)	(0.2)	(0.3)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Cash requirement stood at Rs79bn (FY20-1HFY23), despite the leased business model. Out of this, EBITDA loss was just 20%, rest for incremental working capital, capex and goodwill (SpotOn). Even excluding the acquisition of SpotOn, cash requirement over FY20-1HFY23 was at Rs64bn and EBITDA loss (-Rs16bn) was 25% of cash requirement.

Figure 19: Cash flow snapshot

(Rs bn)				FY20-22			FY20-1HFY23	
	FY20	FY21	FY22	Total	as % of overall	1HFY23	Total	as % of overall
Adj. EBITDA post bonus and share based payments	(3)	(3)	(4)	(11)	22	(5)	(16)	20
Incremental NWC	(10)	2	(2)	(10)	21	(20)	(31)	39
Capex	(2)	(2)	(10)	(15)	30	(5)	(20)	25
Incremental Goodwill	(0)	(0)	(14)	(14)	28	0	(14)	17
Cash flow	**(16)**	**(4)**	**(30)**	**(49)**	**100**	**(30)**	**(79)**	100

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Others: Delhivery's auditor was S.R. Batliboi over FY19-22. The main bankers are HDFC Bank, Axis Bank, IndusInd Bank, ICICI Bank, State Bank of India, and Kotak Mahindra Bank. Total contingent liability as at end-Mar 2022 was Rs967m. Related-party transactions (mainly remuneration to key management personnel) increased from Rs316m (FY19) to Rs2.2bn (FY22).

Figure 20: Related-party transactions over FY19-22

	FY19	FY20	FY21	FY22
Total	**316**	**356**	**607**	**2,230**
Remuneration to KMP	227	261	383	2,311
Payment to non-exec directors	26	26	27	30
Loan and advances to KMP	0	0	145	0
Loan repayment from KMP			1	120
Associate - Leucon Tech Pvt Ltd - purchase of services	62	68	53	9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Deals in Indian B2C express are at a premium to global listed peers

Total fund infusion in Delhivery till now is Rs121bn (equity and preference shares). Net worth (Sep 2022) was at Rs94bn due to historic losses. The recent initial public offer or IPO (May 2022) valued Delhivery at 5x FY22 EV/ sales (Rs354bn post-money market capitalization). The stock now trades at 3.3x FY22 EV/sales (market capitalization of Rs244bn). The IPO size was Rs52.4bn (including Rs12.4bn offer for sale or OFS).

Figure 21: Fund-raising by Delhivery

(Rs bn)		Investors	Amount infused	% shareholding post conversion	Implied Equity value	EV/ Sales
IPO	May 22	Various	40.0	11.3	354	5.0 x FY22
Series I Preference shares	Sep 21	Suedasien	5.6	2.0	276	7.3 x FY21
Series H Preference shares	May 21	Fidelity	20.1	7.8	259	6.8 x FY21
Series F Preference shares	Mar 19	Softbank, Carlyle, China Momentum Fund	28.9	20.1	144	7.1 x FY19
Series E Preference shares	Mar 17	Tiger Global, Carlyle, China Momentum Fund	8.7	11.0	79	
Series D Preference shares	May 15	Multiples, Nexus	5.1	9.0	57	
Others			12.6	38.8	32	
Total			**121.0**	**100.0**	**121**	

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Recent transactions in Indian B2C Express companies (ex-Delhivery): Ecom Express raised US$44m from CDC and Partners group in Feb 2021, valuing it at US$768m (post-money) – 3.6x FY21 EV/sales. **Xpressbees** raised US$300m from TPG Growth and Chrys Capital in Feb 2022, valuing it at US$1bn (post-money) – 7x FY21 EV/sales.

Listed peer valuations: Listed peers trade at a median 0.9x CY23F EV/sales. China-based companies trade at a median 0.9x CY23F EV/sales. Among the US-based companies, FedEX trades at 0.6x CY23F EV/sales and UPS trades at 1.4x CY23F EV/sales.

Figure 22: Peer comparison

Company Name	Bloomberg Ticker	Closing Price	Target Price	Rating	Mkt Cap	P/E (x)		P/BV (x)		ROE (%)		EV/EBITDA		EV/SALES	
		Local Currency	(Rs)		US$ m	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
ZTO Express	ZTO US	22	NA	NR	13,419	2.8	2.2	0.3	0.3	12.0	13.4	8.2	6.7	2.4	2.0
JD Logistics	JDLGF US	2	NA	NR	12,073	(28.6)	8.0	0.3	0.3	(1.0)	3.7	13.8	8.3	0.6	0.4
SF Holdings	002352 CH	52	NA	NR	35,441	38.3	28.4	2.9	2.6	7.5	9.3	10.8	9.6	0.9	0.8
YTO Express	600233 CH	19	NA	NR	9,391	18.0	15.3	2.5	2.2	14.1	14.6	9.6	8.1	1.1	1.0
STO Express	002468 CH	10	NA	NR	2,139	38.8	21.5	1.9	1.7	4.8	8.0	9.1	7.1	0.5	0.5
Yunda	002120 CH	12	NA	NR	4,857	19.8	13.1	2.0	1.8	10.1	13.5	8.5	6.8	0.8	0.7
FedEx	FDX US	176	NA	NR	45,697	12.2	9.8	1.7	1.4	13.7	14.7	6.5	5.7	0.6	0.6
UPS	UPS US	181	NA	NR	131,995	14.0	14.7	8.1	6.7	57.7	45.2	8.4	8.8	1.4	1.4
VRL Logistics	VRLL IN	542	387	REDUCE	586	19.5	18.8	6.0	4.7	30.9	25.1	11.2	9.5	1.8	1.6
TCI Express	TCIEXP IN	1,891	NA	NR	893	46.1	36.7	10.6	8.4	23.0	22.9	34.2	27.2	5.7	4.8
Median						**18.8**	**15.0**	**2.3**	**2.0**	**12.9**	**14.0**	**9.3**	**8.2**	**1.0**	**0.9**

NOTE: ESTIMATES FOR ALL STOCKS ARE BLOOMBERG CONSENSUS.
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG PRICES AS ON 22 NOV 2022.

In India, TCI Express trades at 4.8x FY24F EV/sales. It is a B2B express logistics company with a healthy RoE. VRL Logistics trades at 1.6x FY24F EV/sales. It is a PTL/TL company with a healthy RoE.

Figure 23: Main business verticals of listed peers

	USA	China	India
Only Express		JD Logistics, YTO Express, STO Express, Yunda	
Express and PTL/ TL	FedEx, UPS	ZTO Express, SF Holdings	TCI Express
Only PTL/ TL			VRL Logistics

SOURCE: INCRED RESEARCH, COMPANY REPORTS

SpotOn acquisition by Delhivery at 15.6x FY22F EV/EBITDA

Delhivery spent Rs15.4bn on acquisitions in the last five years. Its main acquisition was SpotOn in Jul 2021 for Rs15.1bn, including goodwill of Rs14.7bn. SpotOn is a 100% subsidiary of Delhivery with effect from 24 Aug 2021.

Figure 24: Acquisitions by Delhivery

Target entity	Year	Country	Mode	Acq price (Rs bn)
Aramex India Pvt Ltd	Feb 19	India	Asset purchase	Rs0.26bn (goodwill Rs 0.16bn)
Roadpiper Tech. Pvt Ltd	Jan 20	India	Business transfer	Rs0.04bn (goodwill Rs0.02bn)
Primaseller Inc.	Feb 21	USA	Asset purchase	Rs0.04bn (goodwill Rs0.01bn)
Spoton Logistics Pvt Ltd	Jul 21	India	Share purchase	Rs15.1bn (goodwill Rs14.7bn)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

SpotOn is in the business of PTL transport. Asset intensity (asset/sales of 37%) was lower than that of Delhivery (asset/ sales of 67%) in FY21. Net working capital or NWC/ sales stood at 13% in FY21, lower than Delhivery's 38%.

Figure 25: Income statement of SpotOn

(Rs m)	FY21	9MFY22	Growth 9MFY22 annualised vs. FY21 %
Revenue	8,036	7,575	26
EBITDA	751	821	46
Other Income	27	12	
Interest	369	413	
Depreciation	719	592	
Tax	(36)	82	
PAT	(274)	(255)	

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Figure 26: Key metrics of SpotOn

	FY21	9MFY22	Growth %
Part truckload (kt)	759	684	20
Number of customers (Yr-end)	5,234	5,541	6
Number of employees (Yr-end)	1,991	2,092	5
Land area (m square feet)	2.6	2.9	9
PIN code reach (Yr-end)	12,764	13,087	
Number of gateways	38	40	

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Based on 9MFY22 numbers, we estimate that the transaction was at 1.7x FY22F EV/sales and 15.6x FY22F EV/EBITDA. Its listed peer VRL Logistics trades at 11.2x FY23F EV/ EBITDA and at 1.8x FY23F EV/sales.

Figure 27: Key financial ratios of SpotOn

	FY21	9MFY22
NWC/ Sales %	12	15
NFA incl. RoU assets / Sales %	25	15
NFA ex-RoU assets / Sales %	13	9
Assets/ sales %	37	31
Assets ex-RoU assets/ Sales %	26	24
RoCE % (ex-RoU assets)	1	10
RoE %	(56)	(134)
Net debt (incl. lease liability)/ equity	5.2	10.4
Net debt/ EBITDA	3.3	2.6

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Figure 28: Acquisition valuation of SpotOn

	(Rs bn)
Acquisition value	15.1
Net debt Mar 2021	2.5
Acquisition EV	17.6
Acquisition EV/ EBITDA FY21 (x)	23.4
Acquisition EV/ Sales FY21 (x)	2.2
Acquisition P/BV (x)	31.0

SOURCE: INCRED RESEARCH, DELHIVERY DRHP

Outlook – Initiate coverage with REDUCE rating; TP Rs263

We expect a 21% revenue CAGR (FY22-25F) driven by a 22% CAGR in express parcels and a 16% CAGR in PTL and TL. We factor in a 304bp improvement in adj. EBITDA margin (post share-based payments and bonus) over FY22-25F. As a result, we expect -3.3% EBITDA margin in FY25F.

Figure 29: Financial projections – income statement

(Rs bn)	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F
Sales	16.5	27.7	36.4	67.1	78.1	99.1	119.8
yoy growth %	-	67.8	31.0	84.4	16.5	26.8	20.9
% from Express Parcel	83.0	69.5	70.1	62.5	63.1	62.2	64.3
% from PTL and TL	8.5	21.5	16.5	24.4	21.6	23.3	21.2
% from Others	8.5	9.0	13.4	13.2	15.3	14.5	14.5
Freight cost (ex-contract labour)	9.7	17.8	23.1	42.3	51.6	62.2	74.9
% of sales	58.6	64.2	63.4	63.1	66.1	62.8	62.5
Employee cost	6.3	8.9	10.8	20.6	25.8	30.0	35.7
% of sales	37.9	32.2	29.8	30.8	33.0	30.3	29.8
Share-based payment and bonus	0.4	0.5	0.7	4.9	3.0	3.3	4.0
% of sales	2.3	1.8	2.0	7.3	3.8	3.3	3.3
Other expenses	2.0	2.7	3.5	5.7	6.6	8.0	9.3
% of sales	11.8	9.8	9.6	8.5	8.5	8.1	7.8
Lease payments	0.9	1.3	2.1	2.7	3.1	3.5	3.8
% of sales	5.3	4.7	5.8	4.0	4.0	3.5	3.2
Adj EBITDA before share-based payments & bonus	**(1.9)**	**(2.5)**	**(2.4)**	**0.6**	**(6.0)**	**(1.4)**	**0.0**
% of sales	**(11.3)**	**(9.1)**	**(6.6)**	**0.9**	**(7.7)**	**(1.4)**	**0.0**
Adj EBITDA after share-based payments & bonus	**(2.2)**	**(3.0)**	**(3.1)**	**(4.2)**	**(9.0)**	**(4.7)**	**(3.9)**
% of sales	**(13.6)**	**(10.9)**	**(8.6)**	**(6.3)**	**(11.5)**	**(4.7)**	**(3.3)**
Depreciation excl. on Leased assets	1.1	1.6	2.1	4.2	5.5	6.0	6.5
% of sales	6.5	5.9	5.8	6.2	7.0	6.1	5.4
Finance cost excl. on lease assets	0.1	0.1	0.2	0.3	0.3	0.3	0.3
% of sales	0.6	0.4	0.6	0.4	0.3	0.3	0.3
EBT	(3.4)	(4.8)	(5.4)	(8.7)	(14.8)	(11.0)	(10.7)
% of sales	(20.7)	(17.2)	(14.9)	(12.9)	(18.9)	(11.1)	(8.9)
PAT	**(17.8)**	**(2.7)**	**(4.2)**	**(10.1)**	**(12.2)**	**(8.4)**	**(9.7)**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: Financial projections – balance sheet

(Rs bn)	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F
Net worth	33.9	31.7	28.4	59.6	87.4	79.0	69.3
Net debt	(15.7)	(1.5)	0.2	1.2	(13.4)	(15.1)	4.1
Lease liabilities	3.2	5.0	8.2	7.5	8.5	10.6	13.3
Source of funds	**21.4**	**35.2**	**36.8**	**68.3**	**82.5**	**74.5**	**86.6**
Gross fixed assets	4.0	6.2	8.3	18.6	25.0	33.0	41.0
Net fixed assets	1.7	2.7	3.3	10.4	11.3	13.3	14.8
ROU assets	3.0	4.8	7.8	6.9	8.5	10.6	13.3
Goodwill	0.2	0.2	0.2	13.8	13.8	13.8	13.8
Investments	11.6	11.9	11.3	20.9	17.1	-	-
Net working capital	4.2	14.5	12.9	14.5	30.0	35.0	43.0
Others	0.7	1.1	1.3	1.8	1.8	1.8	1.8
Application of funds	**21.4**	**35.2**	**36.8**	**68.3**	**82.5**	**74.5**	**86.6**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

NWC/sales rose to 32% in Sep 2022 from 20% in FY22. We expect NWC/sales of 32-33% over FY24F-25F. We factor in a marginal improvement in NFA ex-ROU asset/sales over FY23F-25F.

Figure 31: Financial projections – key ratios

	FY20	FY21	FY22	FY23F	FY24F	FY25F
NWC / Sales %	33.6	37.6	20.4	28.5	32.8	32.6
NFA ex-RoU assets/ Sales %	8.1	8.3	10.2	13.8	12.4	11.7
NFA ex-RoU assets including Goodwill / Sales %	8.7	8.8	20.6	31.5	26.3	23.2
Assets ex-ROU assets/ Sales %	45.6	49.7	43.3	62.3	60.9	57.3
Net debt less investments/ Equity %	(0.4)	(0.4)	(0.3)	(0.3)	(0.2)	0.1
P/E (x)				(20.5)	(29.9)	(25.7)
P/BV (x)				2.9	3.2	3.6
EV/ Sales (x)				2.8	2.2	1.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

We have valued Delhivery using the discounted cash flow or DCF methodology. We factor in a slower rise in operating expenses (vs. sales) even in the absence of any tariff hike due to some operating leverage. Thus, we factor in an EBITDA margin of -1% in FY27F. Post FY27F, we factor in more rational pricing and also a 7% EBITDA margin in FY30F. We believe that tariff hikes will be detrimental for volume growth and factor in a slower volume growth during FY27F-30F. Post FY29F, we consider EV/sales exit multiple of 1.5x FY30F sales.

We believe that this is a reasonable exit multiple as (1) we expect Indian e-commerce penetration to rise to 11% by FY30F and grow at a more tepid ~15% p.a. post FY30F, and (b) Chinese express companies trade at 0.8x EV/ sales. We initiate coverage on Delhivery with a REDUCE rating and a target price of Rs263. Out target price implies EV/sales at 1.4x FY25F.

Figure 32: Target price valuation

	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F
Sales	119.8	145.4	174.9	202.0	231.0	261.5
Growth	20.9	21.4	20.3	15.5	14.3	13.2
Tariff growth %	-	-	-	2.0	2.0	2.0
Volume growth %	20.9	21.4	20.3	13.2	12.1	11.0
Costs	123.7	148.5	176.8	198.7	221.2	244.0
Growth	19.2	20.1	19.0	12.4	11.3	10.3
Adj. EBITDA	(3.9)	(3.1)	(1.9)	3.3	9.7	17.5
Margin %	(3.3)	(2.1)	(1.1)	1.6	4.2	6.7
Less Tax	-	-	-	(0.4)	(1.1)	
Incremental NWC	(7.3)	(9.1)	(10.4)	(9.6)	(10.2)	
Capex	(6.9)	(8.5)	(9.8)	(9.0)	(9.6)	
FCFF	(18.1)	(20.7)	(22.1)	(15.7)	(11.2)	
WACC %	11.0					
Discount factor	0.95	0.86	0.77	0.69	0.63	
PV	(17.2)	(17.7)	(17.0)	(10.9)	(7.0)	245.2
EV/ Sales Exit multiple (x)	1.5					
EV	175					
Less Net Debt	15					
Equity value	191					
Rs/ share	263					

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Derating catalysts

1. Tepid improvement in EBITDA margin.
2. **Possible equity dilution:** While we factor in adj. EBITDA loss (post share-based and bonus payments) of Rs8.6bn (FY24-25F), we expect operating cash flow (post capex) of -Rs37bn. Thus, cash and investments (Rs34bn in Sep 2022) could get utilized, necessitating fresh raising of funds to the tune of ~Rs40bn to meet cash requirement for around two years.
3. **E-commerce players with captive logistics gaining market share:** The focus on growth and deep pockets of the owners of ASS and Flipkart implies that industry pricing will be weak, competition will be high, and losses will continue in the medium term. Volume of B2C express players could be negatively impacted if (a) incremental funds dry up for the industry (ex-ASS and Flipkart), and (b) small players are acquired by large ones with captive logistics.
4. If fund infusion for B2C express sector dries up, we expect them to focus on profit. This could lead to a reduction in market share to B2C express players who have a strong balance sheet and still have access to fresh funds.

Upside risks to our REDUCE rating

1. A trigger for both e-commerce and B2C express players could be the exit / slowdown/ change in strategy of ASS/ Flipkart, which may lead to rational pricing.
2. Exit of competitors (3PL B2C express companies) could provide a respite to Delhivery.

Continuing easy access to funds could boost Delhivery's growth.

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	**36,363**	**67,063**	**78,127**	**99,085**	**119,784**
Gross Profit	**13,310**	**24,772**	**26,515**	**36,860**	**44,919**
Operating EBITDA	**(3,122)**	**(4,232)**	**(9,013)**	**(4,675)**	**(3,915)**
Depreciation And Amortisation	(2,111)	(4,168)	(5,500)	(6,000)	(6,500)
Operating EBIT	**(5,233)**	**(8,401)**	**(14,513)**	**(10,675)**	**(10,415)**
Financial Income/(Expense)	1,581	1,098	2,472	2,300	700
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	(92)	(2,997)			
Profit Before Tax (pre-EI)	**(3,744)**	**(10,299)**	**(12,041)**	**(8,375)**	**(9,715)**
Exceptional Items	(413)		(178)		
Pre-tax Profit	**(4,157)**	**(10,299)**	**(12,219)**	**(8,375)**	**(9,715)**
Taxation		183			
Exceptional Income - post-tax					
Profit After Tax	**(4,157)**	**(10,116)**	**(12,219)**	**(8,375)**	**(9,715)**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**(4,157)**	**(10,116)**	**(12,219)**	**(8,375)**	**(9,715)**
Recurring Net Profit	(3,744)	(10,116)	(12,041)	(8,375)	(9,715)
Fully Diluted Recurring Net Profit	**(3,744)**	**(10,116)**	**(12,041)**	**(8,375)**	**(9,715)**

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	(3,122)	(4,232)	(9,013)	(4,675)	(3,915)
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,567	(1,596)	(15,503)	(5,000)	(8,000)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	321	(2,997)	178		
Other Operating Cashflow					
Net Interest (Paid)/Received	1,581	1,098	2,472	2,300	700
Tax Paid		183			
Cashflow From Operations	**347**	**(7,544)**	**(21,866)**	**(7,375)**	**(11,215)**
Capex	(2,214)	(24,461)	(6,379)	(8,000)	(8,000)
Disposals Of FAs/subsidiaries	595	(9,626)	3,785	17,122	
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	**(1,618)**	**(34,087)**	**(2,594)**	**9,122**	**(8,000)**
Debt Raised/(repaid)	576	734	(543)		600
Proceeds From Issue Of Shares	821	41,322	40,002		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(983)	(3,695)	32	210	210
Cash Flow From Financing	**414**	**38,361**	**39,491**	**210**	**810**
Total Cash Generated	(858)	(3,271)	15,031	1,957	(18,405)
Free Cashflow To Equity	**(696)**	**(40,898)**	**(25,003)**	**1,747**	**(18,615)**
Free Cashflow To Firm	**(1,069)**	**(41,379)**	**(24,210)**	**2,047**	**(18,915)**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	2,774	2,290	16,933	18,680	65
Total Debtors	9,614	16,709			
Inventories	259	253			
Total Other Current Assets	9,468	9,454	43,885	52,610	64,289
Total Current Assets	**22,116**	**28,706**	**60,818**	**71,290**	**64,354**
Fixed Assets	11,114	17,310	19,764	23,889	28,045
Total Investments	11,282	20,907	17,122		
Intangible Assets	186	13,814	13,799	13,799	13,799
Total Other Non-Current Assets	1,279	1,771	1,771	1,771	1,771
Total Non-current Assets	**23,861**	**53,802**	**52,456**	**39,459**	**43,615**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	4,422	8,345			
Other Current Liabilities	1,678	2,984	13,885	17,610	21,289
Total Current Liabilities	**6,100**	**11,329**	**13,885**	**17,610**	**21,289**
Total Long-term Debt	11,169	11,015	12,031	14,156	17,413
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**11,169**	**11,015**	**12,031**	**14,156**	**17,413**
Total Provisions	341	590			
Total Liabilities	**17,610**	**22,934**	**25,917**	**31,767**	**38,702**
Shareholders Equity	28,368	59,574	87,357	78,982	69,268
Minority Interests					
Total Equity	**28,368**	**59,574**	**87,357**	**78,982**	**69,268**

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	31.0%	84.4%	16.5%	26.8%	20.9%
Operating EBITDA Growth	3.4%	35.5%	113.0%	(48.1%)	(16.3%)
Operating EBITDA Margin	(8.6%)	(6.3%)	(11.5%)	(4.7%)	(3.3%)
Net Cash Per Share (Rs)	(16.26)	(13.59)	6.75	6.23	(23.90)
BVPS (Rs)	54.95	92.78	120.37	108.83	95.44
Gross Interest Cover	(25.75)	(33.24)	(58.05)	(35.58)	(34.72)
Effective Tax Rate					
Net Dividend Payout Ratio					
Accounts Receivables Days	92.22	71.63	39.03		
Inventory Days	3.47	2.21	0.89		
Accounts Payables Days	0.01				
ROIC (%)	(22.2%)	(32.5%)	(30.2%)	(16.3%)	(14.0%)
ROCE (%)	(13.3%)	(15.3%)	(17.1%)	(11.1%)	(11.6%)
Return On Average Assets	(11.9%)	(17.5%)	(14.8%)	(9.5%)	(9.5%)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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