

Despite seasonality, Delhivery's performance in surface express continues to remain robust. Regaining lost wallet share during Spoton's integration along with yield improvement in the PTL business underpins management's focus on improving profitability together with gaining market share. With a bulk of the network expansion investment for FY24 completed and pickup in demand imminent in Q3 (B2C monthly volume run rate up over 15% vs. Q2 average), H2 should see decent operating leverage for the company to turn EBITDA positive. Strong cash position (net cash of ~USD650mn) lends support to future expansion plans while keeping any aggressive competition at bay. We forecast a 24% revenue CAGR over FY23-26E and PAT turnaround in FY26E. We retain our BUY rating, with a TP of Rs490, based on DCF methodology.

Delhivery: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	68,823	72,253	84,810	1,08,696	1,36,378
EBITDA	(1,722)	(4,686)	1,107	5,681	11,189
Adj. PAT	(7,113)	(10,248)	(3,362)	(896)	2,735
Adj. EPS (Rs)	(11.1)	(14.1)	(4.6)	(1.2)	3.7
EBITDA margin (%)	(2.5)	(6.5)	1.3	5.2	8.2
EBITDA growth (%)	0.0	0.0	0.0	413.3	96.9
Adj. EPS growth (%)	0.0	0.0	0.0	0.0	0.0
RoE (%)	(16.2)	(13.5)	(3.7)	(1.0)	2.9
RoIC (%)	(21.4)	(19.3)	(8.2)	(5.1)	0.7
P/E (x)	(36.3)	(28.6)	(87.8)	(329.6)	107.9
EV/EBITDA (x)	(152.7)	(63.1)	268.4	52.0	26.0
P/B (x)	4.3	3.2	3.2	3.2	3.1
FCFF yield (%)	(11.1)	(2.7)	(1.0)	(0.2)	1.1

Source: Company, Emkay Research

Momentum continues, despite a weak environment

Revenue grew 8% YoY to Rs19.4bn, driven by the express parcel segment, up 8% YoY, and part truck load business (PTL), which delivered 27% YoY growth in Q2FY24. Despite Q2 being a seasonally weak quarter, growth was seen across all segments, except supply chain (SCS) and cross-border services, which declined 9%/57% YoY. Adjusted EBITDA margin remained stable at (0.8%), 10bps lower than Q1, as network expansions continued in anticipation of a strong H2. Net loss was lower at Rs1.03bn vs. loss of Rs2.5bn YoY on the back of improved operating leverage and higher other income (over 16% YoY). Momentum in PTL business continued because of volume growth (over 22% YoY) as well as improved yields (over 5% YoY). The company has renegotiated contracts in PTL and SCS businesses to improve profitability from every account. Working capital position improved to 28 days vs. 38 days in Mar-23 due to a reduction in receivables days. Net cash position as of Sep-23 stands at Rs53.6bn.

Outlook and risks

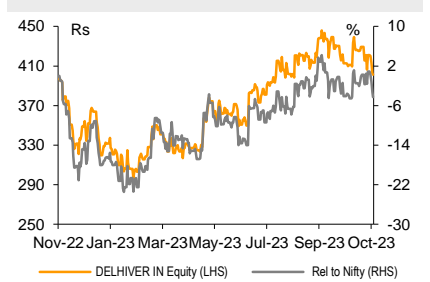
Despite seasonality, where other express surface operators have reported muted growth, Delhivery's tech-enabled network sustained its performance in both express and PTL businesses. The company's strategy to pass on efficiency gains in the B2C segment (where customers are price-sensitive) bodes well for future market share gains, while yield improvements in the B2B segment, which focuses more on network speed and reliability, should aid the path towards profitability. Our estimates broadly remain unchanged, with adjusted EBITDA expected to witness breakeven in FY24E, and the company turning PAT/FCF positive in FY26E on the back of operating leverage and reducing capex intensity (6% from the current annualized run-rate of 7.5%). Our Sep-24E TP of Rs490/share, based on DCF methodology (13% WACC, 5% terminal growth), implies FY26E EV/EBITDA of 28x. **Key risks:** Slowdown in the e-commerce industry/overall GDP, external calamities, operational risks due to dependence on contractual labor, third-party assets, and pricing pressures in a fragmented market.

Target Price – 12M	Sep-24
Change in TP (%)	3.1
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.7
CMP (03-Nov-23) (Rs)	402.3

Stock Data	Ticker
52-week High (Rs)	452
52-week Low (Rs)	291
Shares outstanding (mn)	734.4
Market-cap (Rs bn)	295
Market-cap (USD mn)	3,547
Net-debt, FY24E (Rs mn)	52,321
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	516.6
ADTV-3M (USD mn)	6.2
Free float (%)	67.0
Nifty-50	19,231
INR/USD	83.3
Shareholding, Jun-23	
Promoters (%)	-
FPIs/MFs (%)	65.6/14.6

Price Performance

(%)	1M	3M	12M
Absolute	(2.5)	1.0	4.4
Rel. to Nifty	(1.0)	1.8	(2.0)

1-Year share price trend (Rs)**Anshul Agrawal**

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Exhibit 1: Summary of quarterly financials

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY	QoQ
Net sales	17,961	18,238	18,596	19,298	19,417	8%	1%
Operating Expenses	(19,338)	(18,971)	(18,632)	(19,428)	(19,573)	1%	1%
Freight, handling and servicing cost	14,358	14,095	13,715	14,381	14,421	0%	0%
Change in inventories	-	16	-	-	-		
Employee Benefit Expense	2,738	2,726	2,844	2,982	2,986	9%	0%
Share-based expense	790	670	730	550	680	-14%	24%
Other operating expenses	1,451	1,464	1,343	1,515	1,486	2%	-2%
EBITDA	(1,377)	(732)	(36)	(130)	(156)	-89%	20%
Depreciation	(2,001)	(2,073)	(2,424)	(1,673)	(1,712)	-14%	2%
EBIT	(3,377)	(2,806)	(2,461)	(1,803)	(1,868)	-45%	4%
Other Income	873	943	746	1,013	1,012	16%	0%
Interest	(240)	(214)	(189)	(195)	(196)	-18%	1%
Share of profit/(loss) of associates	82	(14)	8	64	2	-98%	-97%
PBT	(2,662)	(2,090)	(1,726)	(922)	(1,050)	-61%	14%
Tax	121	134	140	27	21	-83%	-23%
PAT	(2,541)	(1,956)	(1,587)	(895)	(1,029)	-59%	15%
EPS (Rs)	(4)	(3)	(2)	(1)	(1)	-60%	15%
Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY	QoQ
Gross Margin	20.1%	22.7%	26.2%	25.5%	25.7%	567	25
EBIDTA	-7.7%	-4.0%	-0.2%	-0.7%	-0.8%	686	(13)
EBIT	-18.8%	-15.4%	-13.2%	-9.3%	-9.6%	918	(27)
EBT	-14.8%	-11.5%	-9.3%	-4.8%	-5.4%	942	(63)
PAT	-14.1%	-10.7%	-8.5%	-4.6%	-5.3%	885	(66)
Effective Tax rate	-4.6%	-6.4%	-8.1%	-2.9%	-2.0%	259	95

Source: Company

Exhibit 2: Segment-wise quarterly summary

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY	QoQ
Express parcel	11,250	12,000	11,770	12,020	12,100	8%	1%
PTL	2,930	2,770	3,280	3,470	3,730	27%	7%
FTL	1,030	1,020	1,090	1,310	1,500	46%	15%
Supply chain services	1,800	1,780	1,880	2,060	1,640	-9%	-20%
Cross border services	960	660	570	420	410	-57%	-2%
Total Revenue	17,961	18,238	18,596	19,298	19,417	8.1%	1%
Volume							
Express Parcel (mn)	161	170	180	182	181	12%	-1%
PTL (000s ton)	286	258	318	343	348	22%	1%
Realizations							
Express Parcel (Rs/parcel)	70	71	65	66	67	-4%	1%
PTL (Rs/ton)	10,245	10,736	10,314	10,117	10,718	5%	6%

Source: Company

Exhibit 3: Actuals vs. estimates (Q2FY24)

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation (%)	
				Emkay	Consensus
Revenue	19,417	20,564	19,846	-6%	-2%
EBITDA	-156	-100	-251	57%	-38%
EBITDA Margin	-0.8%	-0.5%	-1.3%	-32 bps	46 bps
PAT	-1,029	-1,455	-1,317	-29%	-22%

Source: Company, Emkay Research

Exhibit 4: Change in estimates

Particulars	FY24E			FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	86,890	84,810	-2.4%	1,10,299	1,08,696	-1.5%	1,36,856	1,36,378	-0.3%
EBITDA	1,095	1,107	1.1%	5,702	5,681	-0.4%	11,186	11,189	0.0%
EBITDA Margin (%)	1.3	1.3	5 bps	5.2	5.2	6 bps	8.2	8.2	3 bps
EBIT	(6,885)	(6,473)	-6.0%	(3,315)	(3,857)	16.3%	763	736	-3.5%
PAT	(4,497)	(3,362)	-25.2%	(991)	(896)	-9.6%	2,399	2,735	14.0%
EPS (Rs)	(6.2)	(4.6)	-25.5%	(1.4)	(1.2)	-9.9%	3.3	3.7	13.6%

Source: Company, Emkay Research

Exhibit 5: We value Delhivery at a TP of Rs490/share

Particulars (Rs mn)	FY23	FY24E	FY25E	FY26E	FY35E	FY45E
Revenue	72,253	84,810	1,08,696	1,36,378	6,07,762	15,76,377
NOPLAT	(9,709)	(4,835)	(2,881)	550	54,003	1,40,071
Non-cash items	11,201	10,169	11,577	12,165	25,227	65,432
Change in WC	664	(305)	(1,109)	(808)	(2,431)	(4,181)
Capex	(6,005)	(6,606)	(7,267)	(7,993)	(30,124)	(78,133)
FCF	(3,849)	(1,577)	320	3,914	46,676	1,23,190
WACC	13%					
Terminal growth	5%					
PV of CFs – FY24-45E	1,91,818					
PV of terminal value	1,24,559					
Total EV	3,16,377					
Less Net debt	(52,321)					
Total Equity Value	3,68,698					
Total no. of shares	734					
No. of shares (dilution owing to ESOPs)	61					
Total no. of diluted shares	795					
Target Price – Sep-24E (Rs/share)	490					

Source: Company, Emkay Research

Concall highlights

B2C Express Segment

- The company has maintained its market share in the B2C Express division and has already seen strong traction in Oct-23 with average MoM volume growth exceeding 15%+.
- Management continues to expect the e-commerce industry to grow by 15-20%, with Delhivery seeing volume growth at the higher end. The company saw growth in the heavy category in CD, home and furniture verticals.
- The company observed a peak to peak change of +15% YoY during the festive season in GMV for e-commerce demand, with Delhivery witnessing similar trends in volumes from non-market place players.
- An increase in express delivery centers is due to re-calibration of network (decrease in partner DCs) and network expansion in anticipation of a strong H2 and years forward.
- Realization improvement in Q2 is on the back of product mix, and there has been no change in the pricing strategy
- Management continues to see 40%+ incremental gross margins from the transportation business.

PTL segment (B2B express)

- Ramp-up in volumes continued owing to an increase in salesforce and regaining wallet share of customers lost during Spoton's integration. Management has cherry picked volumes from customers with a threshold ROCE/margin profile, which has resulted into lower receivable days (12 days) in Q2.
- Despite the run-rate being ~20% lower than pre-integration issues, management suggests non-meaningful volumes from customers who left their network owing to sub-par yields.
- Run-rate for Oct-23 has been ~120K ton with strong growth coming from SMEs – where the company is focused on increasing its category penetration. (Q2 monthly average of ~116K ton).
- The company is expanding its local presence by increasing salesforce in Tier 2-4 cities.
- The segment registered higher realizations (+5% YoY/+6% QoQ) due to continued focus on yield improvement by jettisoning non-margin accretive contracts.
- The company expanded facilities in Chennai (a key location for the B2B origination business), Noida (serving as a de-risking point for Tauru mega-gateway and catering e-commerce growth out of North India) and Hyderabad (where the infrastructure was upgraded to suit tractor-trailer operations to reduce line haul costs).
- The company expects the facilities to reach 55-60% utilization levels in 5-6 months' gestation period, post 6-7% capacity expansion in H1.

Other segments

- The supply chain services (SCS) segment is expected to grow significantly in H2 due to the implementation of a few key customer contracts as well as seasonality.
- The company saw a revenue dip in SCS owing to the switching of pricing models from capex to opex and renegotiation of a key contract, which should be margin accretive going forward.
- The CBS segment saw muted performance owing to compression of yields in rates of both, ocean transportation and air freight.
- The FTL segment continued to witness strong traction in a seasonally weak quarter.

Others

- The company has continued to invest in its network in Q2, anticipating demand for the remaining year. Generally, the company does not undertake any network expansion in H2 owing to peak demand season; hence, operating leverage should kick in from H2.
- The company anticipates new facilities to last until FY27, while mega-gateways would last seven years.
- The company achieved over utilization from Tauru gateway by achieving 480K bags/day against the maximum feasible 420K/day, envisaged during the designing of the facility.
- The company expects a shift of cargo share from its network to DFC due to the different cargo profiles involved, with the latter moving bulk cargo primarily.
- The company does not expect corporate overhead costs (as a % of revenue) to increase further in FY24.

Delhivery: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	68,823	72,253	84,810	1,08,696	1,36,378
Revenue growth (%)	88.7	5.0	17.4	28.2	25.5
EBITDA	(1,722)	(4,686)	1,107	5,681	11,189
EBITDA growth (%)	0.0	0.0	0.0	413.3	96.9
Depreciation & Amortization	6,107	8,311	7,579	9,539	10,453
EBIT	(7,830)	(12,997)	(6,473)	(3,857)	736
EBIT growth (%)	0.0	0.0	0.0	0.0	0.0
Other operating income	0	0	0	0	0
Other income	1,561	3,049	3,849	3,849	3,849
Financial expense	995	888	853	888	925
PBT	(7,264)	(10,836)	(3,476)	(896)	3,661
Extraordinary items	(2,997)	170	0	0	0
Taxes	(183)	(453)	(48)	0	926
Minority interest	0	0	0	0	0
Income from JV/Associates	(32)	136	66	0	0
Reported PAT	(10,110)	(10,078)	(3,362)	(896)	2,735
PAT growth (%)	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	(7,113)	(10,248)	(3,362)	(896)	2,735
Diluted EPS (Rs)	(11.1)	(14.1)	(4.6)	(1.2)	3.7
Diluted EPS growth (%)	0.0	0.0	0.0	0.0	0.0
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	(2.5)	(6.5)	1.3	5.2	8.2
EBIT margin (%)	(11.4)	(18.0)	(7.6)	(3.5)	0.5
Effective tax rate (%)	2.5	4.2	1.4	0.0	25.3
NOPLAT (pre-IndAS)	(7,632)	(12,454)	(6,384)	(3,857)	550
Shares outstanding (mn)	642.1	728.7	733.8	733.8	733.8

Source: Company, Emkay Research

Cash Flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(7,264)	(10,836)	(3,476)	(896)	3,661
Others (non-cash items)	0	0	0	0	0
Taxes paid	(132)	(716)	48	0	(926)
Change in NWC	(6,604)	(30,991)	1,695	(109)	(808)
Operating cash flow	(2,405)	(273)	3,505	6,611	11,168
Capital expenditure	(26,818)	(7,642)	(6,606)	(7,267)	(7,993)
Acquisition of business	(1,202)	443	(1,333)	(1,440)	(1,416)
Interest & dividend income	1,322	1,049	3,849	3,849	3,849
Investing cash flow	(27,421)	(34,107)	(2,090)	(3,857)	(5,560)
Equity raised/(repaid)	626	87	0	0	0
Debt raised/(repaid)	(154)	(1,781)	(2,536)	(1,648)	(1,056)
Payment of lease liabilities	(2,682)	(2,579)	(2,536)	(1,648)	(1,056)
Interest paid	(995)	(888)	(853)	(888)	(925)
Dividend paid (incl tax)	0	0	0	0	0
Others	29,541	37,967	0	0	0
Financing cash flow	29,018	35,385	(3,389)	(2,536)	(1,981)
Net chg in Cash	(809)	1,005	(1,974)	217	3,627
OCF	(2,405)	(273)	3,505	6,611	11,168
Adj. OCF (w/o NWC chg.)	4,199	30,719	34,496	6,720	11,975
FCFF	(29,223)	(7,915)	(3,101)	(656)	3,174
FCFE	(28,896)	(7,754)	(104)	2,306	6,099
OCF/EBITDA (%)	139.7	5.8	316.7	116.4	99.8
FCFE/PAT (%)	406.3	75.7	3.1	(257.4)	223.0
FCFF/NOPLAT (%)	382.9	63.6	48.6	17.0	577.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	642	729	729	729	729
Reserves & Surplus	58,932	91,043	90,270	91,413	95,860
Net worth	59,574	91,771	90,999	92,142	96,589
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(922)	(2,073)	(2,073)	(2,073)	(2,073)
Total debt	11,015	9,234	6,698	5,050	3,994
Total liabilities & equity	69,667	98,933	95,624	95,119	98,510
Net tangible fixed assets	6,225	7,951	6,977	4,705	2,245
Net intangible assets	17,359	15,328	15,328	15,328	15,328
Net ROU assets	6,941	6,667	8,001	9,441	10,857
Capital WIP	584	215	215	215	215
Goodwill	13,799	13,621	13,621	13,621	13,621
Investments [JV/Associates]	13,236	12,792	14,126	15,566	16,982
Cash & equivalents	2,290	2,955	981	1,198	4,825
Current assets (ex-cash)	37,310	66,434	66,108	68,291	71,981
Current Liab. & Prov.	11,290	10,575	11,943	14,017	16,899
NWC (ex-cash)	26,020	55,860	54,165	54,274	55,082
Total assets	69,667	98,933	95,624	95,119	98,510
Net debt	4,787	2,467	1,904	39	(4,644)
Capital employed	69,667	98,933	95,624	95,119	98,510
Invested capital	49,618	79,158	76,489	74,327	72,674
BVPS (Rs)	92.8	125.9	124.0	125.6	131.6
Net Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
Net Debt/EBITDA (x)	(2.8)	(0.5)	1.7	0.0	(0.4)
Interest coverage (x)	(0.2)	(0.1)	(0.3)	(113.3)	0.2
RoCE (%)	(11.6)	(11.8)	(2.7)	0.0	4.7

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(36.3)	(28.6)	(87.8)	(329.6)	107.9
P/CE(x)	(257.0)	(151.4)	70.0	34.2	22.4
P/B (x)	4.3	3.2	3.2	3.2	3.1
EV/Sales (x)	3.8	4.1	3.5	2.7	2.1
EV/EBITDA (x)	(152.7)	(63.1)	268.4	52.0	26.0
EV/EBIT(x)	(33.6)	(22.7)	(45.9)	(76.5)	394.8
EV/IC (x)	5.3	3.7	3.9	4.0	4.0
FCFF yield (%)	(11.1)	(2.7)	(1.0)	(0.2)	1.1
FCFE yield (%)	(11.2)	(2.6)	0.0	0.8	2.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	(10.3)	(14.2)	(4.0)	(0.8)	2.0
Total asset turnover (x)	1.3	0.9	0.9	1.1	1.4
Assets/Equity (x)	1.2	1.1	1.1	1.0	1.0
RoE (%)	(16.2)	(13.5)	(3.7)	(1.0)	2.9
DuPont-RoIC					
NOPLAT margin (%)	(11.1)	(17.2)	(7.5)	(3.5)	0.4
IC turnover (x)	1.9	1.1	1.1	1.4	1.9
RoIC (%)	(21.4)	(19.3)	(8.2)	(5.1)	0.7
Operating metrics					
Core NWC days	(12.2)	(16.0)	(14.3)	(12.9)	(12.3)
Total NWC days	138.0	282.2	233.1	182.3	147.4
Fixed asset turnover	3.6	2.2	2.2	2.4	2.6
Opex-to-revenue (%)	27.6	28.0	25.3	22.5	20.4

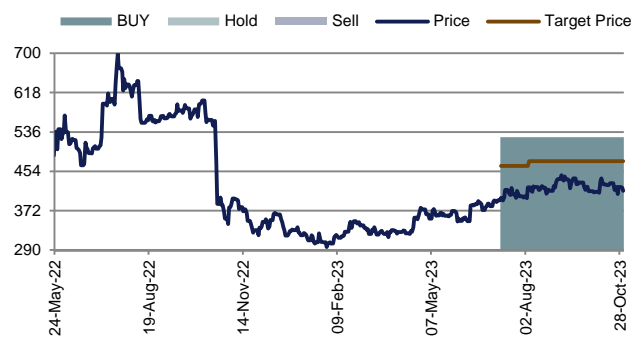
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
05-Aug-23	421	475	Buy	Anshul Agrawal
10-Jul-23	399	465	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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