

LOGISTICS

One hit and some misses in Delhivery's financials investors must know about

By Taslima Khan May 31, 2024, 04:00:00 AM IST



Synopsis

Delhivery's B2B express logistics, which crashed post the Spoton acquisition, has posted a healthy comeback. However, it needs to do a lot on the higher realisation and profitability fronts.

Delhivery, which counts e-commerce **logistics** as its core business, acquired **B2B express** player **Spoton Logistics** in 2021 for a whopping INR1,511 crore. This was Delhivery's largest acquisition ever in the run-up to its IPO the next year. The deal was intended to boost Delhivery's B2B or part truck load business.

But the big bang merger had its share of problems and created massive operational bottlenecks. As a result, Delhivery made losses. Service levels suffered, too. And consequently, Delhivery lost market share to its competitors in the express-

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logistics industry such as Safexpress, Gati, TCI Express, and Blue Dart. So much so that the Delhivery-Spoton combine's business slipped from INR1,705 crore in FY22 to around INR1,157 in FY23. You can read our detailed analysis on this [here](#).

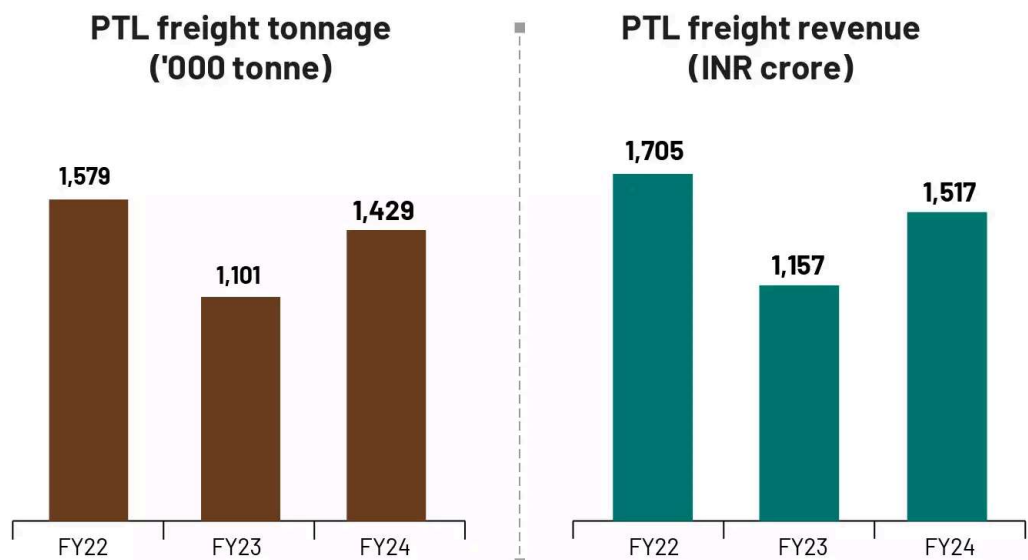
The market wondered whether Delhivery will be able to weather this storm.

Well, looks like it has.

Its FY24 financials show Delhivery has registered a spectacular rebound in its part truck load (**PTL**) service segment, both in terms of tonnage volumes handled as well as revenues. PTL, also called B2B express, is a specialised service provided by logistics players. The service works by consolidating smaller shipments from multiple companies and transporting them via a hub-and-spoke model. Since this is a timebound service, logistics players charge a premium.

In FY24, Delhivery's PTL freight volume grew 30% to 14.29 lakh tonne in FY24 from 11.01 lakh tonne in FY23. Correspondingly, revenue from PTL services grew 31% to INR1,517 crore from INR1,157 crore in FY23.

Delhivery: PTL freight volume vs. revenue



Source: Delhivery earnings presentation

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Delhivery has also regained market share to become the number two B2B express player after Safexpress. B2B express is the second largest business segment for Delhivery after B2C or e-commerce logistics.

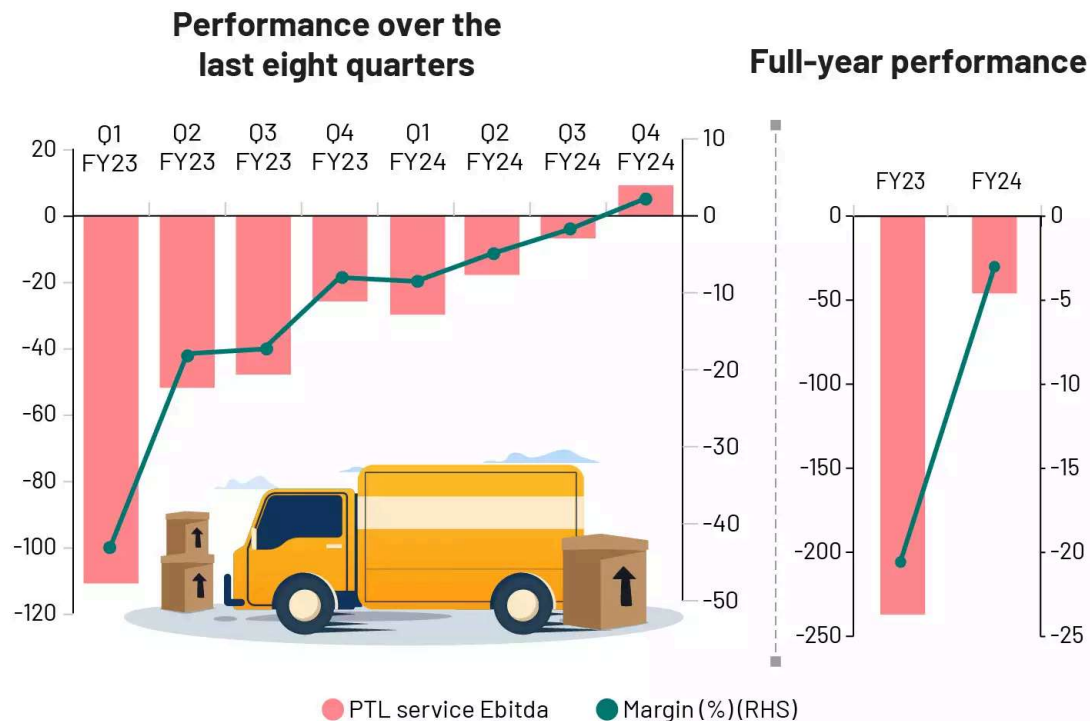
So, how did Delhivery up its B2B express game?

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Small is big

Although Delhivery has grown its corporate business, a big part of the rebound in its PTL volumes is credited to the penetration the company has achieved in **SME** and retail segments that comprise small traders and businessmen. Over two years (2021-23), Delhivery invested heavily in expanding to more than 100 cluster markets across the country. These include Surat's textile and Tirupur's garment clusters, Kolkata's burra bazar, Varanasi's silk traders and Bhadohi's carpet cluster.

Delhivery PTL business



Figures in INR crore unless specified.

Source: *Delhivery earnings presentation*

ETPrime

There are about 400 such clusters across the country, with a high demand for PTL services from traders and manufacturers. It is yet a largely unorganised market waiting to be tapped. In its last earnings call, Sahil Barua, CEO, Delhivery, talked about serving customers in the batteries and chemicals industry. He also made his intent clear to ramp up the company's play in the FMCG sector.

For a diversified player like Delhivery, a fair balance of small and big customers helps achieve better truck utilisation levels, optimise ground network, and build a strong last-mile operation. As the SME and retail segment makes up for a significant part of Delhivery's PTL business, strategic pricing strategy for this segment can be a game changer.

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The SME segment, which is growing at a CAGR of 15%-16%, has particularly become more lucrative for B2B express players because of the digitisation wave in the post-pandemic world and the massive penetration of payments systems. Since these smaller entities typically operate on cash, pre-paid means, or credit cycles not more than 15 days, help create huge liquidity to operate a profitable network and build volumes. In contrast, large corporates follow credit cycles of up to 30 days.

While realisations from customers are subject to multiple considerations like weight, distance, nature of cargo etc., realisations from SME customers are typically higher, ranging from INR17-INR18 per kg, compared to large corporates that can give higher volumes but command lower pricing at INR12- INR12.5 a kg.

Delhivery has adopted a very aggressive sales strategy, significantly ramping up its sales team across tier-I, tier-II, and tier-III locations, beyond the major three-four cities where it has been present. Going forward, the company expects to push the pedal on sales growth. "Whether it will be exactly linear or sort of more hockey stick over the next year or two, we'll see. It also depends on our ability to put more sales teams on the ground...," said Barua during the call.

What remains to be solved

However, despite the growth in volumes, there is a lot of room for improvement in profitability.

Over the last three years, Delhivery has made massive investments towards building its large automated hubs and fulfilment centres. The company believes margins in the PTL business will improve as its network utilisation improves with incremental growth in volumes.

The good thing is, in the last eight quarters, Delhivery's service Ebitda for the PTL business has been improving consistently. In fact, Q4 of FY24 was the first quarter when Delhivery reported INR9 crore positive service Ebitda for the PTL business. However, for the full fiscal year, FY24, it remains in the negative zone, compared to market leader Safexpress, which reported 19% positive Ebitda in FY23.

Analysts say given the huge volumes the company is handling right now, it may be the right time to push up pricing. "We don't see any major headroom for further cost optimisation. So, the only viable option to make PTL service profitable is by improving pricing per kg. In Q4 FY24, Delhivery's average per kg realisation was around INR10.85, which is lower than major players in industry," says **Vikash Khatri**, co-founder at Aviral Consulting.

As per market intelligence, realisations for market leader Safexpress hovers around INR12.5 per kg.

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“SME and retail segment can give you a good bottom line to offer higher discounts to large corporate customers,” says an industry insider. Thus, higher realisations from SMEs will be important going forward because Delhivery is also building up its corporate business, which will create cost pressures on the network such as more direct vehicles and stringent service-level requirements.

As the SME and retail segment makes up for a significant part of Delhivery's PTL business, strategic pricing strategy for this segment will be key to higher margins. This segment, which is growing at a CAGR of 15%-16%, has particularly become more lucrative because of the digitisation wave post Covid-19 and the massive penetration of payment systems.

Delhivery has been trying to increase pricing for the SME/retail segment, but it is easier said than done. That's because, for many SME and retail businesses, Delhivery works with channel partners/aggregators who consolidate the business from multiple customers. For example, Delhivery will typically give a rate to the channel partner who will add a margin to it and sell in the market. If Delhivery is giving a rate of, say, INR10/kg to a channel partner, he sells it at INR15-INR16 in the marketplace, taking his cut.

In comparison, the likes of BlueDart, Gati, or Safexpress have a bigger direct business with retail customers, so there is no loss of revenue in commissions to intermediaries. For sure, these companies work with business associates for first-mile pickups and pay him a commission, but this is lower than what is paid to aggregators. With a direct connect with customers working with them for a long time, it is easier for them to raise prices than working with intermediaries because in the latter case, the risk of business moving to competition is higher.

Industry insiders believe that Delhivery has focused sharply on volume growth. However, improving internal controls can have a significant impact on its bottom line. There are a couple of determining factors here.

Supply-chain companies have a very stringent audit system at the first mile and the last mile of their network to make sure that the right weight of the shipment is captured. If a client's load is 1,000 tonnes in a month and he manages to get an invoice of 700 tonnes, it is a straight revenue loss of 300 tonnes for the logistics company. “Delhivery relies on automated weighing machines but there are some loopholes to be fixed. Controlling these leakages can straight away lead to a revenue gain of 10% to 15%. This is an area where traditional players have huge control with no revenue leakage,” says a former Delhivery employee on condition of anonymity.

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Now, that's another area that will need Delhivery's attention.

(Graphics by Manali Ghosh)